

**MARKET VALUE APPRAISAL**  
of the  
**GRAIN BELT OFFICE PROPERTY**  
located at  
*1215 Marshall Street Northeast*  
*Minneapolis, Minnesota 55413*



## **MEMORANDUM**

Date: February 3, 2009

From: Lee Peterson  
CPED Staff Appraiser

To: Earl Pettiford  
Senior Project Coordinator

Re: List of Property Price Changes

Earl,

As you requested, I have reviewed the suggested price changes of the homes listed below. After careful review of the market, including recent sales and current competitive listings, I concur with the suggested price changes.

If you have any questions please call me at #5034.

Address	Old Price	Suggested New Price
3641 5 <sup>th</sup> Avenue S	\$225,000	\$190,000
2811 15 <sup>th</sup> Avenue S	225,000	190,000
4247 Emerson Avenue N	198,000	165,000
3911 Fremont Avenue N	185,000	155,000
5139 Vincent Avenue N	180,000	160,000
1115 25 <sup>th</sup> Avenue N	173,500	140,000
1220 25 <sup>th</sup> Avenue N	173,500	140,000
407 33 <sup>rd</sup> Avenue N	195,000	145,000
411 33 <sup>rd</sup> avenue N	195,000	145,000
2653 Emerson Avenue N	179,500	140,000
2101 Ilion Avenue N	195,000	155,000
2415 Irving avenue N	195,000	150,000
2018 James avenue N	195,000	150,000
2618 Penn Avenue N	195,000	140,000
2116 Willow Avenue N	195,500	150,000

Mr. Lee Peterson  
Chief Appraiser  
Community Planning Economic Development  
Crown Roller Mill – Suite 600  
105 Fifth Avenue South  
Minneapolis, MN 55401

January 28<sup>th</sup>, 2009

**In re: Market Value Appraisal Update**  
***Grain Belt Office Property***  
1215 Marshall Street Northeast  
Minneapolis, Minnesota

Dear Mr. Peterson:

Pursuant to your request, we have made a re-inspection and analysis of the above referenced property for the purpose of determining it's 'as-is' market value as of January 21<sup>st</sup>, 2009. The real property rights considered in this appraisal are those of the fee simple estate ownership interest in the real estate as defined in the body of the report. It is understood that this appraisal will be used by the City of Minneapolis to assist in negotiating a sale of the property.

The subject property was first marketed for sale by the City of Minneapolis in 2006 via a Request for Proposals (RFP) process. The City's development goals for the subject property are to find a buyer willing to renovate the historically-designated improvements with an office, restaurant, event center, etc. type of use. In late 2006, the City received five bids and the winning bid of \$650,000 was awarded to United Properties. As part of their due diligence prior to closing on the sale, United Properties discovered asbestos that was estimated to cost \$200,000 to remove. More importantly though, United Properties was unsuccessful at securing adequate parking for the facility and the office tenant they were representing was no longer interested in the property if adequate on-site parking could not be provided. Thus, United Properties did not close on the property. The City went back to the other four bidders requesting they re-submit their bids. Only one bid was re-submitted and the subject property is currently under contract for \$400,000 with this bidder, Space Unlimited (Kristi Oman), who is subsequently asking to re-negotiate the sale price since a drainage problem was discovered as part of the due diligence. The corrective measures for the drainage problem include re-grading the surrounding vacant city-owned land, installing drain tile and/or french drains, and connecting the drain tile to the city storm sewer system. It may also be necessary to upgrade the city storm sewer system in the area. Based on a quote provided by Loucks Associates, the cost to correct the drainage problem ranges from \$100,000 to \$600,000 depending on the corrective plan. A specific corrective plan was not proposed as additional studies were necessary. For purposes of this appraisal, the cost to correct the drainage problem is estimated to be \$400,000.

This appraisal report has been prepared in conformity with the Code of Professional Ethics and Standards of the Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice (USPAP). This report is conveyed in a summary report format as outlined in USPAP.

This appraisal report presents all known information about the subject property, market conditions, and available data. This appraisal assignment and the opinion of value are subject to the following specific requirements, assumptions and limiting conditions, as well as others described in the following appraisal report:

- The market value opinion for of the subject property has an effective date of **January 21<sup>st</sup>, 2009**. This opinion is based upon market conditions prevailing at that time. The exterior of the subject property was inspected by Darren Browen on January 15<sup>th</sup>, 2009 and the interior and exterior was inspected by Robert Lunz, MAI on January 21<sup>st</sup>, 2009. Darren Browen had previously inspected the interior of the property in March 2007. The property has been vacant for the most part over the past 10 years.
- The subject site is currently part of a larger parcel of land. This appraisal assumes the subject site will be subdivided from the larger parcel and allocated ±22,800 square feet of land (95 lineal feet along Marshall Street Northeast by 240 lineal feet deep). The site will have ±34 parking stalls that will be accessed by a ±22 foot wide driveway easement to be granted by the City of Minneapolis (the seller) along the northern property boundaries.
- The subject property is in poor condition and requires a significant amount of renovations. The renovation costs were estimated by the appraisers to range from \$1,200,000 to \$1,600,000. The subject is historically designated, thus renovation costs are higher than typical to maintain the historic look and design of the improvements. The current buyer had estimated renovation costs to be \$1,350,000 (excluding asbestos removal and drainage correction costs) in mid-2007. ***This valuation assumes the renovation costs, excluding asbestos removal and drainage correction costs, are roughly \$1,400,000.***
- The subject property has a drainage problem that has caused water damage to the improvements. There is a detailed discussion of this problem in the body of the report. ***The cost to correct the storm water drainage on the site is estimated to be \$400,000.*** As part of this estimate, it is assumed the City of Minneapolis (the seller) will grant the necessary easements across the adjacent property which they own in order to effectively connect a drain tile system to the city storm sewer system, if necessary.
- The subject property contains some hazardous materials (asbestos and possibly some petroleum waste according to the buyer, however the seller believes the petroleum wastes have been removed). The cost to remove the asbestos was estimated to be roughly \$200,000 (see *Addenda*). The cost to remove the petroleum waste (if it exists) is not known. ***This valuation assumes the cost to correct the hazardous conditions is \$200,000.*** The appraisers lack the expertise required to estimate the cost of removing these other hazardous materials. The intended users are urged to retain experts in this field to discover and provided cost estimates to correct what hazardous conditions may exist.



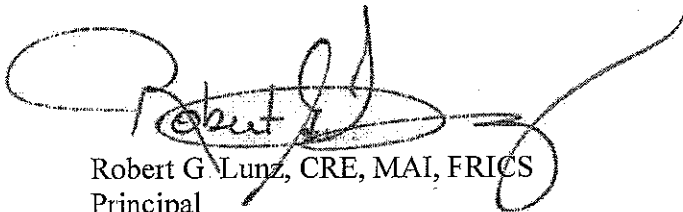
- The seller, City of Minneapolis, is disposing of this property via the Request for Proposals (RFP) process. This process requires the winning bidder to have a specific development plan and a respective associated timeframe (generally less than six to nine months). In other words, a speculative buyer is not a possibility. As such, the winning bidder must incur significant renovation cost in the next year and also have a specific user/users in-place.
- The market value excludes personal property such as furniture, movable fixtures, and movable equipment.
- The market value opinion evolved in this report is based on a reasonable exposure time.

It is our opinion that the *Market Value* of the fee simple estate interest in the **Grain Belt Office Building** property 'as-is' as of January 21<sup>st</sup>, 2009 is:

***ZERO DOLLARS.*** ..... \$0

Please call if you have any questions or comments after reading this appraisal report.

Cordially,  
**NICOLLET PARTNERS, INC.**



Robert G. Lunz, CRE, MAI, FRICS  
Principal  
Certified General Real Property Appraiser  
MN License No. 4000843  
MN Broker License No. 461490



Darren L. Browen  
Senior Associate Appraiser  
Certified General Real Property Appraiser  
MN License No. 20306483

## **PART ONE - INTRODUCTION**

**MARKET VALUE APPRAISAL**  
as of January 21<sup>st</sup>, 2009

of the

**GRAIN BELT OFFICE PROPERTY**

located at  
1215 Marshall Street Northeast  
Minneapolis, MN 55413

prepared for:

Mr. Lee Peterson  
Chief Appraiser  
*Community Planning Economic Development*  
*City of Minneapolis*  
Crown Roller Mill – Suite 600  
105 Fifth Avenue South  
Minneapolis, MN 55401

prepared by:

*Nicollet Partners, Inc.*

Robert G. Lunz, CRE, MAI, FRICS  
Principal

and

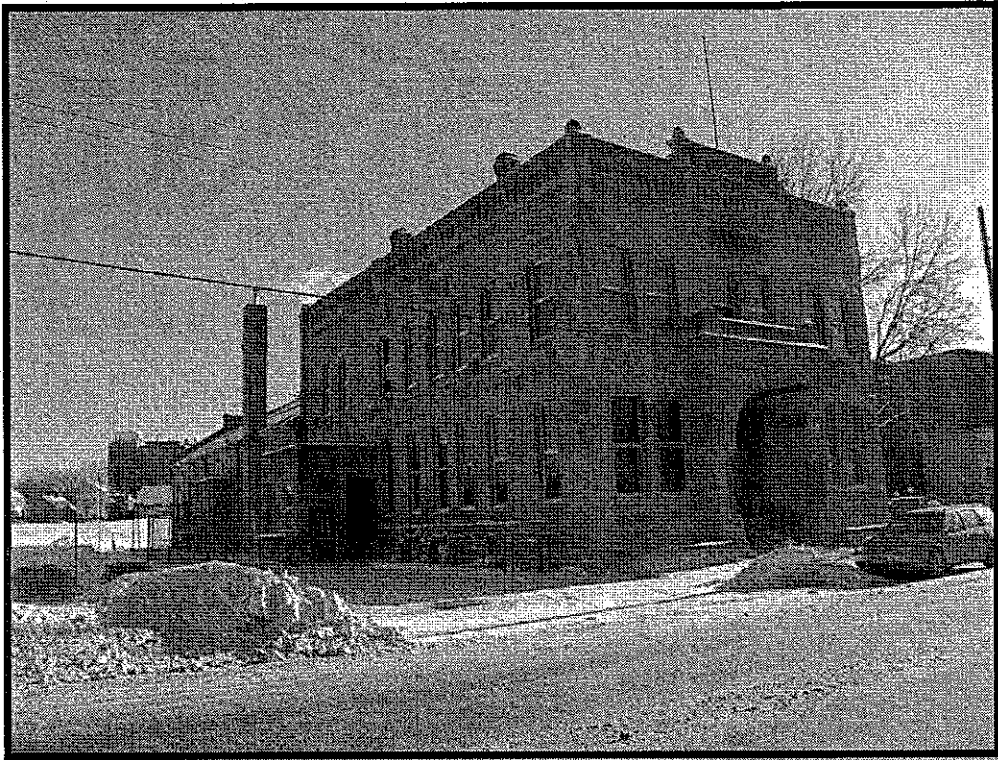
Darren L. Browen  
Senior Associate Appraiser

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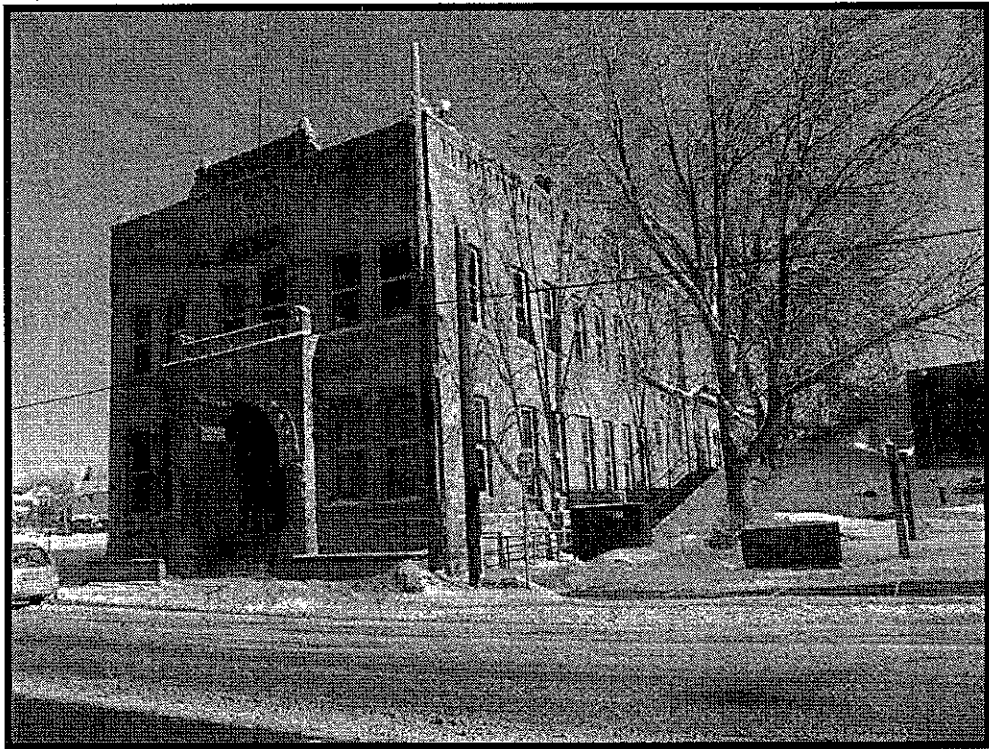
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***SUBJECT PHOTOGRAPHS***

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Exterior view of the Grain Belt Office Building's north and west elevations (1/15/2009).



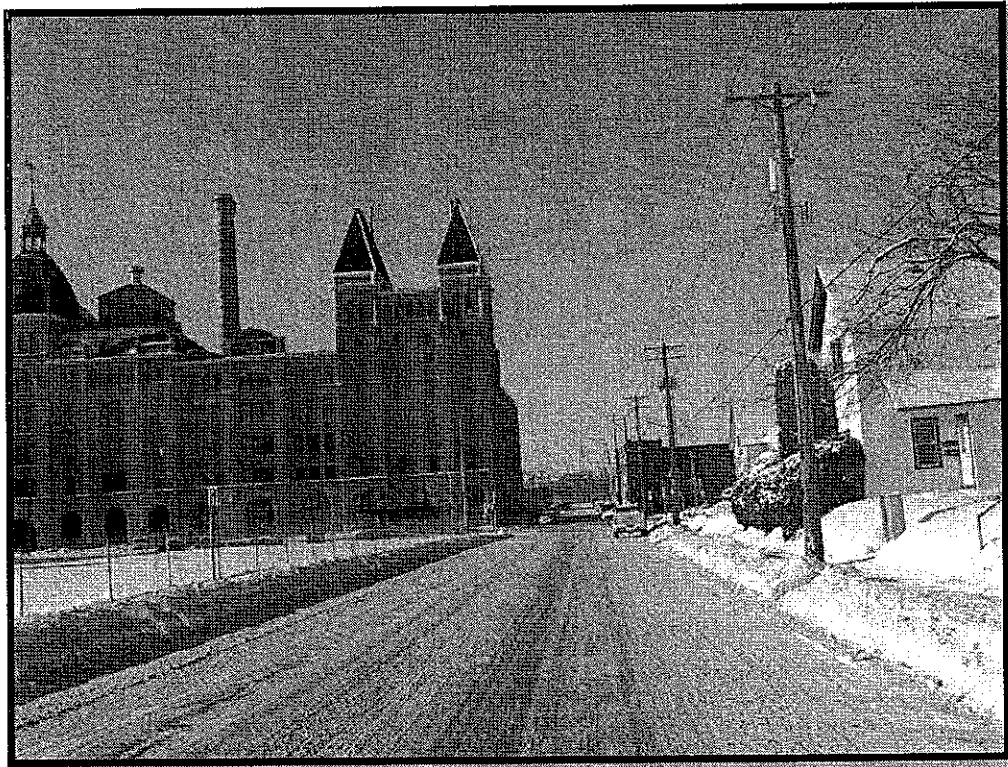
Exterior view of the south and west elevations (1/15/2009).

## SUBJECT PHOTOGRAPHS

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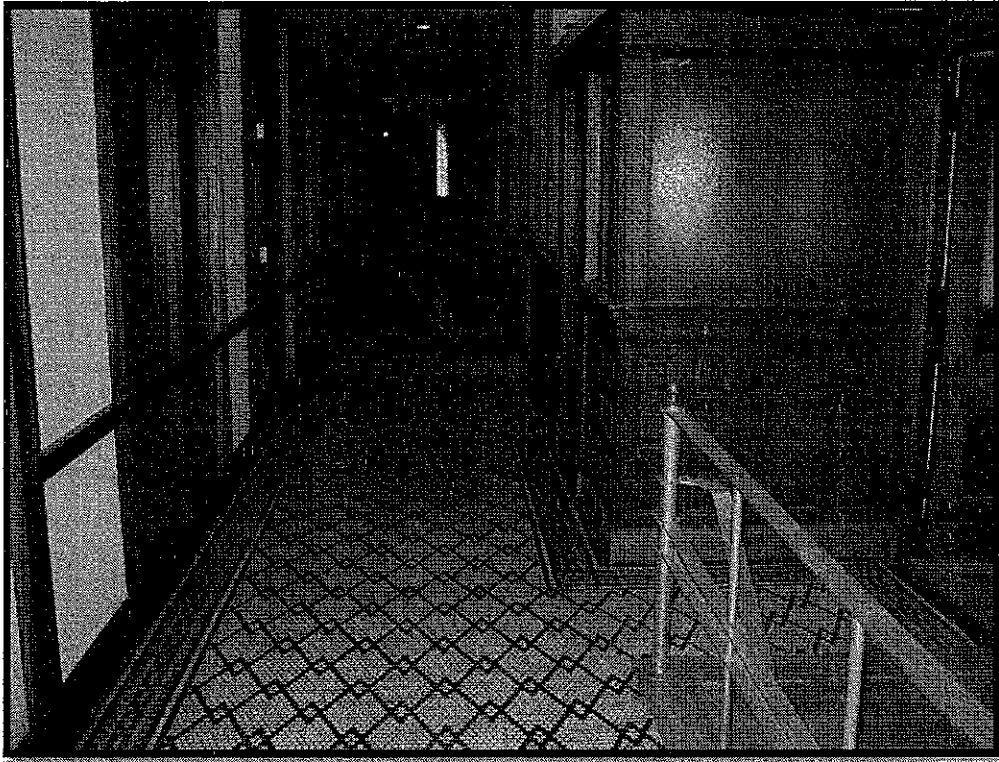
Street view – Facing south on Marshall Street Northeast (1/15/2009).



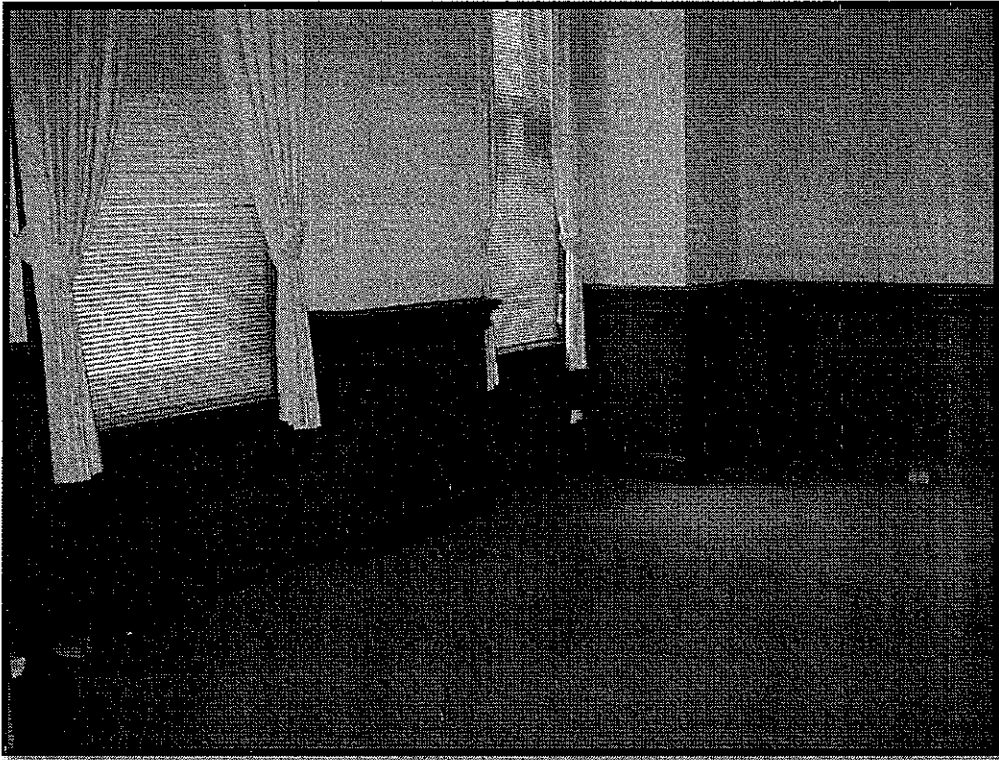
Street view – Facing west on 13<sup>th</sup> Avenue Northeast (1/15/2009).

***SUBJECT PHOTOGRAPHS***

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1<sup>st</sup> Floor Office Area (5/3/2005).

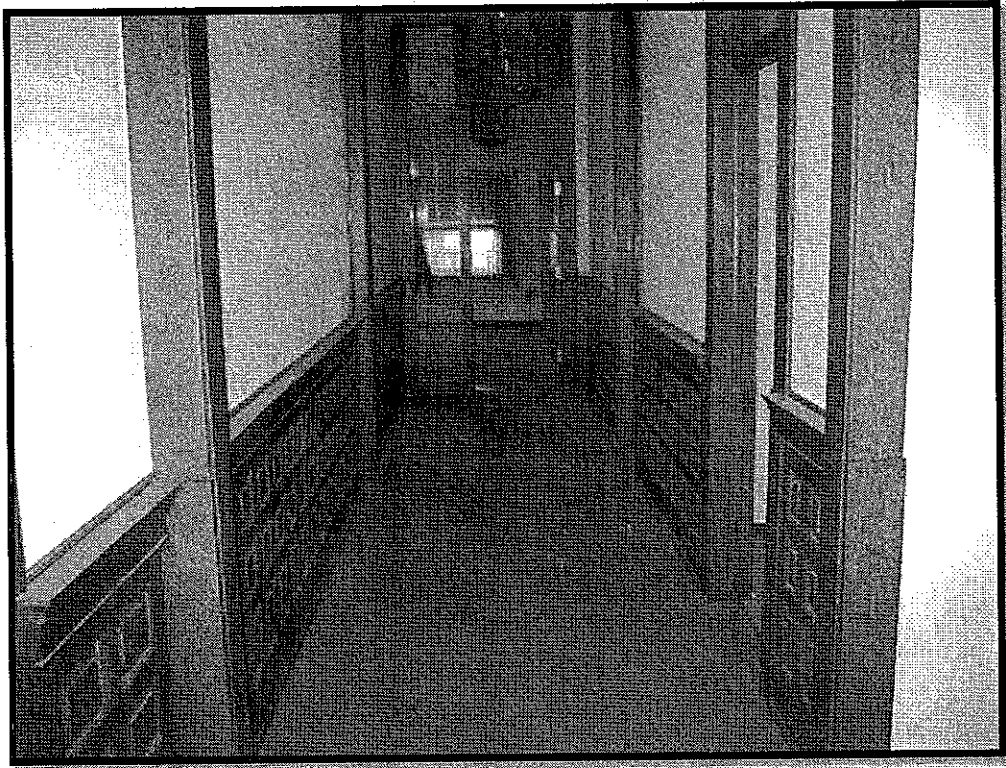


1<sup>st</sup> Floor Office Area (5/3/2005).

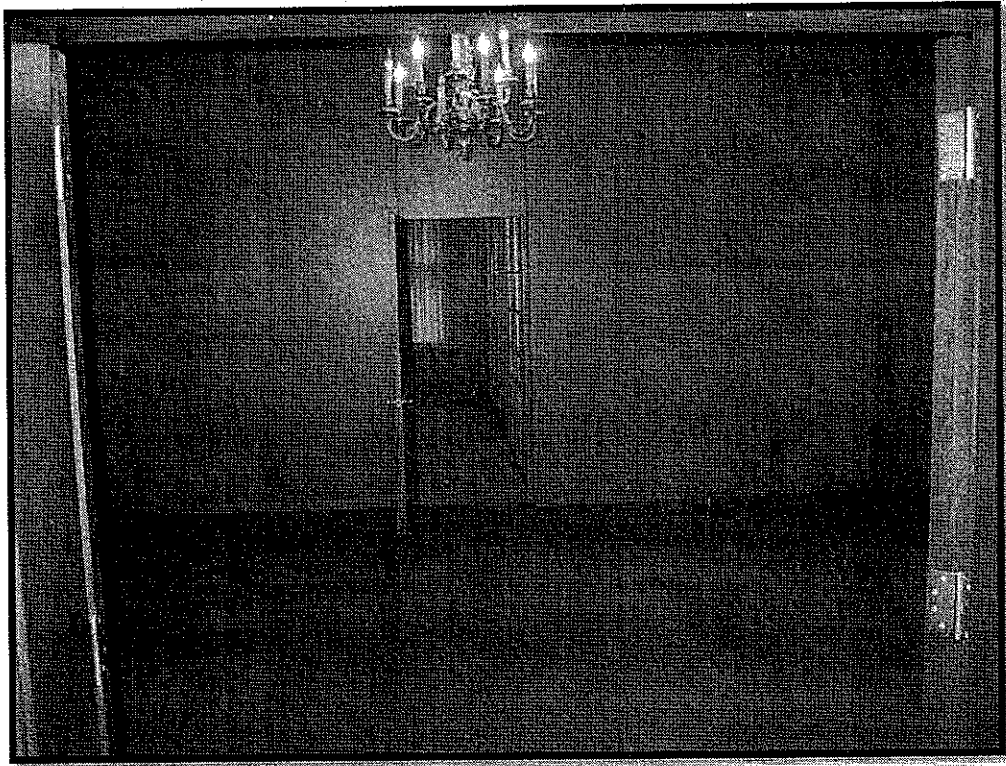


***SUBJECT PHOTOGRAPHS***

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2<sup>nd</sup> Floor Office Area (5/3/2005).

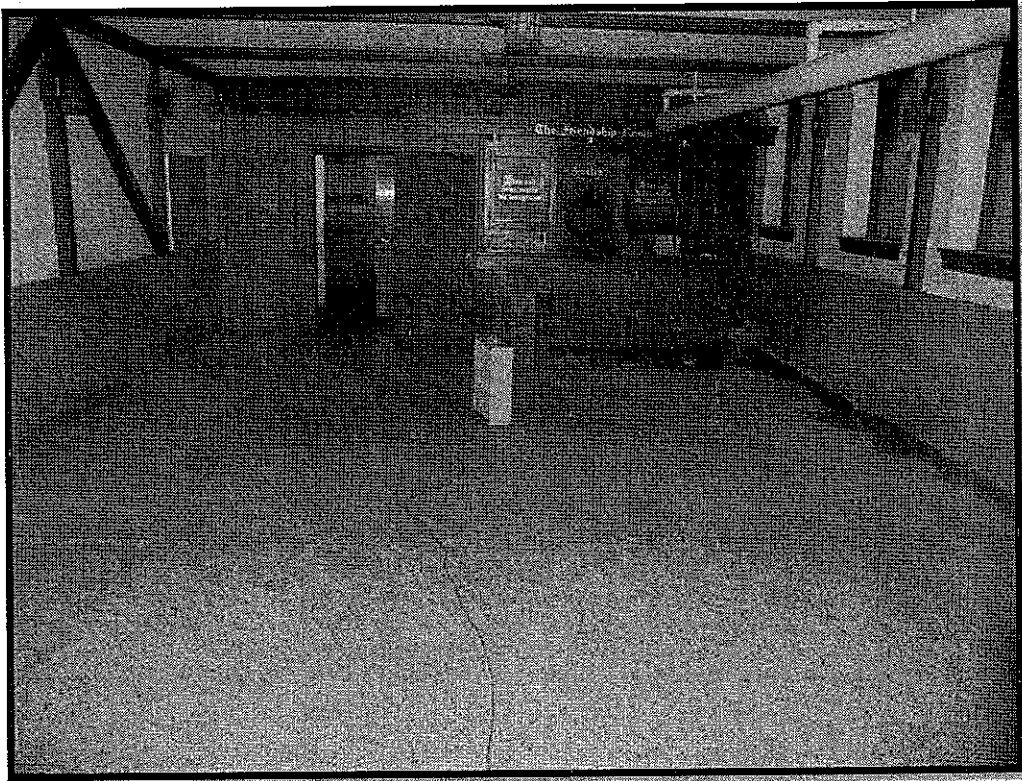


2<sup>nd</sup> Floor Office Area (5/3/2005).

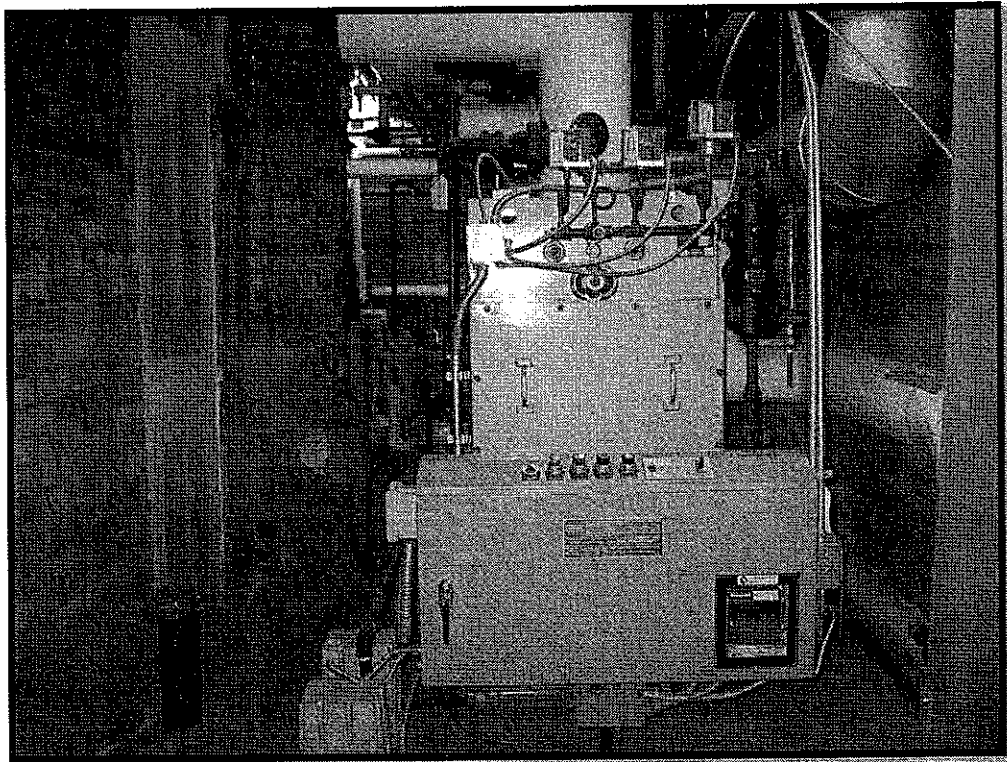


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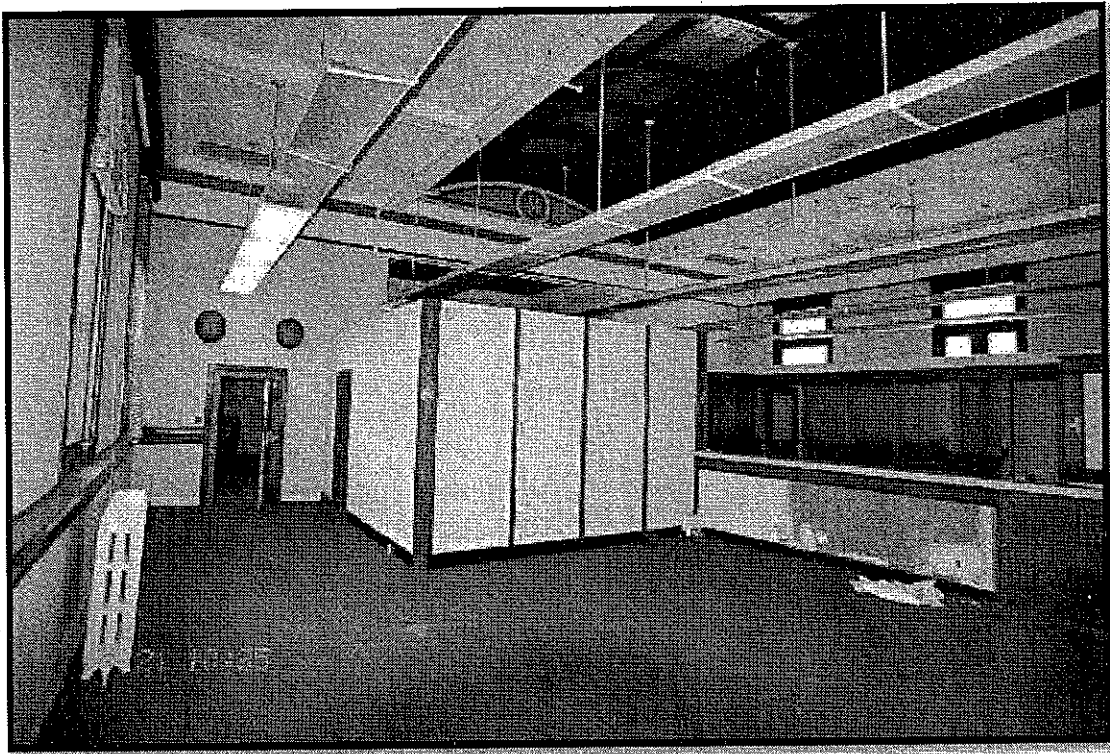
Basement Area (3/28/2007).



Boiler Room (5/3/2005).

***SUBJECT PHOTOGRAPHS***

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First Floor Open Office Area (1/21/2009).



Basement Area (1/21/2009).

## ***SUMMARY OF SALIENT FACTS***

<b>The Property</b>	<b>Grain Belt Office Property 1215 Marshall Street NE Minneapolis, MN 55413</b>
Tax Parcel ID No.	Part of 15-029-24-14-0097 (new PID will be assigned upon the subdivision of the property)
Property Rights Being Appraised	Fee Simple Estate Interest
Valuation Date	January 21, 2009
Date of Inspection	January 21, 2009
<b><i>Site Description</i></b>	
Land Area	±22,800square feet, or 0.52 acre
Shape and Topography	Rectangular / The subject site is generally level with street grade. There is a retaining wall along the south side of the property and a steep elevation change along the east side of the subject property.
Street Frontage	95 lineal feet along Marshall Street Northeast
Curb Cuts	None - Access will be from one curb cut along Marshall Street Northeast via a permanent driveway easement adjacent to the northern boundary of the subject property.
Traffic Volume	Marshall Street - 12,700 vehicles per day in 2007
Zoning	C-1, Neighborhood Commercial District
Flood Zone	Zone X; Map Panel 27053-C0357-E; Map Date: 9/2/2004
Census Tract No	27053-0024.00-3
Neighborhood Summary	The subject property is located in Northeast Minneapolis. This neighborhood experienced a period of revitalization from 2000 through 2007 due to the influx of artists and small businesses. During this revitalization, a number of older properties were razed to make way for new improvements as well as some older properties being renovated. Due to the slumping housing market and weakening overall economy, the neighborhood has now entered a period of declining prices similar to the most of the Twin Cities. It is anticipated prices will stabilize by late 2009 or early 2010.

## ***SUMMARY OF SALIENT FACTS***

Improvement Description				
Gross Building Area (GBA)	19,316 square feet (includes garden level / basement area)			
GBA Breakdown	1st Floor	7,895	square feet or	41% of total area
	2nd Floor	3,199	square feet or	17% of total area
	Garden Level	4,111	square feet or	21% of total area
	Basement	4,111	square feet or	21% of total area
	Totals	19,316		100%
Rentable Area (RA)	13,357 square feet (excludes basement area)			
Building Efficiency	69 1%			
Year Built	1892 with a subsequent addition at an unknown date; partially renovated in the early 1990's.			
Number of Stories	Two stories plus a basement/lower level			
Construction	The building has an assumed masonry frame with a brick exterior.			
Ceiling Heights	The first and second floor clear spans range from 12' to approximately 16', while the garden level (rear) portion of the basement has a 9' clear, and the remaining (front) basement area has a 7' clear span.			
Condition	Poor (the property suffers from significant deferred maintenance)			
Land to Building Ratio	0.83 to 1.0			
Land Coverage	33% (based on 1st floor GBA)			
Parking	34 parking stalls or 1 space per 393 square feet of rentable area			
Highest and Best Use				
As Vacant	Commercial or office type of development			
As Improved	Continued use as an office building after repairing deferred maintenance items.			
Value Conclusions				
Cost Approach	Not applicable			
Sales Comparison Approach	\$0	or,	\$0.00 /sq. ft. of RA	
Income Approach	(\$140,000)	or,	(\$10.48) /sq. ft. of RA	
As Is Market Value Opinion	\$0	or,	\$0.00 /sq. ft. of RA	

## ***CERTIFICATION***

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The undersigned hereby certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only the reported assumptions and limiting condition and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. The appraisers have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. They have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. The engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. The compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. The appraisal assignment was not based on a requested minimum value, a specific value, or the approval of a loan.
7. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of the Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
8. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
9. As of the date of this report, Robert G. Lunz, MAI, has completed the requirements under the continuing education program of the Appraisal Institute. Robert G. Lunz and Darren L. Browen are licensed Certified General Real Property Appraiser by the State of Minnesota.
10. They have made a personal inspection of the property that is the subject of this report. The exterior of the subject property was inspected by Darren Browen on January 15<sup>th</sup>, 2009 and the interior and exterior was inspected by Robert Lunz on January 21<sup>st</sup>, 2009. Darren Browen had previously inspected the interior of the property in March 2007. The property has been vacant for the most part over the past 10 years.
11. No one other than the persons signing this report have provided significant professional assistance to the analyses, conclusions and opinions set forth herein except as otherwise noted in the report.

## **CERTIFICATION**

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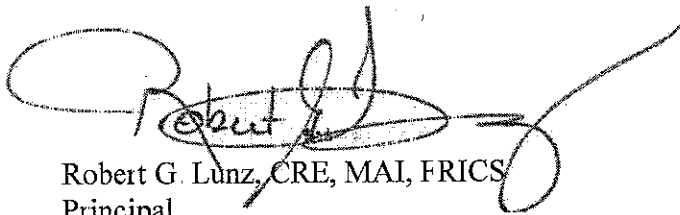
12. The appraisers have acquired the knowledge and experience to complete this appraisal assignment and have previously appraised this type of property.
13. The appraisers have not been sued by a regulatory agency or financial institution for fraud or negligence involving an appraisal report.

It is our opinion that the *Market Value* of the 'as-is' fee simple estate interest in the **Grain Belt Office Building** property as of January 21<sup>st</sup>, 2009 was:

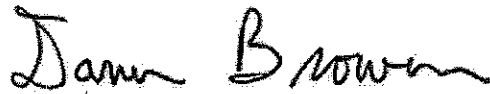
***ZERO DOLLARS*** ..... *\$0*

Sincerely,

**NICOLLET PARTNERS, INC.**



Robert G. Lunz, CRE, MAI, FRICS  
Principal  
Certified General Real Property Appraiser  
MN License No. 4000843  
MN Broker License No. 461490



Darren L. Browen  
Senior Associate Appraiser  
Certified General Real Property Appraiser  
MN License No. 20306483

# **PROFESSIONAL COMPENDIUM - ROBERT G. LUNZ, CRE, MAI, FRICS**

## **I. PROFESSIONAL EXPERIENCE**

- A. Principal and Shareholder of Nicollet Partners, since September 2001.
- B. Principal and Shareholder of Lunz Massopust Reid & DeCaster, Inc., (LMRD), March 1991 through August 2001.
- C. Employed by The Towle Real Estate Company, Minneapolis from September 1975 to March 1991 with the final position of Senior Vice President, Appraisal/Consultation Division
- D. Employed by The Minnesota (Mutual) Life Insurance Company, St. Paul from June 1970 to June 1975, in the Mortgage and Real Estate Division of the Investment Department with the position of mortgage and real estate investment analyst.
- E. Resident of and active in the Twin Cities real estate market since June 1970
- F. 1994 and 1996-2001 Board of Assessment Review, City of Bloomington, Minnesota (1994 and 1997 Chair)
- G. Member, Appraisal Institute – MAI and Counselor of Real Estate – CRE (NAR)
- H. Fellow, Royal Institution of Chartered Surveyors –FRICS (U.K.)
- I. Appointed as a Hennepin County District Court Condemnation Commissioner

## **II. EDUCATIONAL BACKGROUND**

- A. Graduate of Gustavus Adolphus College, St. Peter, Minnesota, 1970, Bachelor of Liberal Arts degree with a major in the study of economics.
- B. Completion of the entire regimen of required course work for the MAI designation.
- C. The appraiser regularly attends investment economics and real estate valuation oriented seminars and courses
- D. The appraiser is certified under the Appraisal Institute's continuing education program through December 2008

## **III. MEMBERSHIPS/PROFESSIONAL AFFILIATIONS AND LICENSES**

- A. Appraisal Institute
  - 1994 Metro/Minnesota Chapter President -2000 National Nominating Committee
  - 1995 & 1997-99 Nat'l Board of Directors -1999-00 & 2007-08 Nat'l. Finance Committee
- B. The Counselors of Real Estate – 1995-99 Chapter Vice Chair
- C. Minneapolis Area Association of Realtors
- D. National Association of Industrial and Office Parks (NAIOP)
- E. Organization of Commercial Realtors (MnCAR)
- F. Licensed Minnesota Real Estate Appraiser – Certified General Real Property Appraiser #4000843
- G. Licensed Real Estate Broker (No. 461490), State of Minnesota.

## **IV. CLIENTS** – Consultation/Valuation Studies and Appraisal Reports have been completed for the following institutions and corporations:

Ameriprise Financial/IDS	M & I Bank	Soo Line Railroad
Associated Banks	The Minneapolis Club	Target Corporation
Boise Cascade Corporation	Minneapolis Community Planning	Teachers Insurance & Annuity
CBS (WCCO) - Radio/TV	& Economic Dev Dept. (CPED)	Association (TIAA-CREF)
Children's Hospitals & Clinics	Minnesota Life (Mutual)	Radisson Hotels/Carlson Cos.
City of Bloomington	Mount Olivet Lutheran Church	Thrivent Insurance/Lutherans
City of Rosemount	North Oaks Company	Toyota Financial Corporation
Government Services Administration	Northland Securities	US Bank - Minneapolis
Hennepin County	OfficeMax Corporation	Union Pacific Railroad
Land O'Lakes	Principal Life	United Properties
Liberty Property Trust	Prudential Realty Group (PRISA)	Walgreen's Corporation
Minneapolis Star/Tribune	Ryan Companies	Wells Fargo Corporation
McGough Construction Co.	Saint Paul Pioneer Press	Woodhill Country Club
Metropolitan Airports Commission	Saint Paul Port Authority	St. Jude Medical



## **PROFESSIONAL COMPENDIUM – DARREN L. BROWEN**

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### **I. PROFESSIONAL EXPERIENCE**

- A. Appraiser, Nicollet Partners, May 2003 - Present
- B. Appraiser, Appraisal Group, October 2001 - April 2003
- C. Financial Analyst, Optical Solutions, January 2000 - September 2001
- D. Senior Auditor, Deloitte & Touche, January 1998 - January 2000

### **II. EDUCATIONAL BACKGROUND**

- A. Bachelor of Arts Degree in Accounting, minor in Chemistry- St. John's University
- B. *Successfully completed the following courses offered by Pro Source:*
  - 1. Appraisal 100 - Introduction to Construction Principles
  - 2. Appraisal 101 - Introduction to Appraisal Principles I
  - 3. Appraisal 102 - Introduction to Appraisal Principles II
  - 4. Appraisal 103 - Introduction to Appraisal Practices I
  - 5. Appraisal 104 - Introduction to Appraisal Practices II
  - 6. Appraisal 105 - Introduction to Appraisal Standards and Ethics
- C. *Successfully completed the following courses offered by the Appraisal Institute:*
  - 1. Course 410 - Standards of Professional Practice, Part A (USPAP)
  - 2. Course 420 - Standards of Professional Practice, Part B (USPAP)
  - 3. Course 310 - Basic Income Capitalization
  - 4. Course 510 - Advanced Income Capitalization
  - 5. Course 520 - Highest and Best Use
  - 6. Course 530 - Advanced Sales Comparison & Cost Approaches
  - 7. Course 540 - Report Writing
  - 8. Course 550 - Advance Applications
- D. *Attended the following seminars since 2005*
  - 1. Evaluating Commercial Construction (2006)
  - 2. Annual RERC-Industry Forecast: 2007 (2007)
  - 3. Uniform Appraisal Standards for Federal Land Acquisitions – Yellow Book (2007)
  - 4. Annual RERC-Industry Forecast: 2008 (2008)
  - 5. Annual RERC-Industry Forecast: 2009 (2009)

### **III. MEMBERSHIPS/PROFESSIONAL AFFILIATIONS AND LICENSES**

- A. Minnesota Real Estate Appraiser – Certified General Appraisal License #20306483
- B. Associate Member of the Appraisal Institute
- C. Appraisal Institute Northstar Chapter Director (2005-2010)

### **IV. EXPERIENCE**

Appraisal Experience has included full-time independent fee appraising and consulting. Appraisal experience has included valuations of leasehold interests, leased fee interests, partial takings, and the following types of real estate:

- A. Single and multiple tenant industrial and office buildings (including medical office facilities)
- B. Apartments (general occupancy, subsidized, and assisted living facilities)
- C. Various commercial/retail buildings, including restaurants and auto-related facilities
- D. Land development projects
- E. Residential condominium projects
- F. Single-family and two-family residential dwellings
- G. Parking lots and ramps

### **V. CLIENTS**

Available upon request



**PART TWO – PREMISES OF THE APPRAISAL**

## **GENERAL ASSUMPTIONS AND LIMITING CONDITIONS**

The certification of the appraiser(s) appearing in this appraisal report is subject to the following conditions and to such other specific and limiting conditions as are set forth in this report:

1. The appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the appraiser render any opinion as to the title, which is assumed to be good and marketable. The property is valued as though under responsible ownership and management. Existing liens or encumbrances, if any, have been disregarded, and the property has been appraised as though free and clear of existing indebtedness, unless otherwise stated and discussed in the report.
2. Any sketch in the report may show approximate dimensions and is included to assist the reader in visualizing the property. The appraiser assumes no responsibility for its accuracy. The appraiser has made no survey of the property. The legal description used in this report is assumed to be correct.
3. The appraiser was not aware of the presence of soil contamination on the subject property, unless otherwise noted in this appraisal report. The effect upon market value, due to contamination was not considered in this appraisal, unless otherwise stated. The appraiser was not aware of the presence of asbestos or other toxic contaminants in the building(s), unless otherwise noted in this report. The effect upon market value, due to contamination was not considered in this appraisal, unless otherwise stated. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.
4. Information, estimates, and opinions furnished to the appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. However, responsibility for the accuracy of such items cannot be assumed by the appraiser.
5. Disclosure of the contents of the Appraisal report is governed by the Bylaws and Regulations of the professional appraisal organization with which the Appraiser is affiliated.
6. On all appraisals involving proposed construction subject to satisfactory completion, repairs, or alterations, the appraisal report and value conclusion are contingent upon completion of the proposed improvements in a workmanlike manner essentially in accordance with the plans and specification submitted for review to the appraiser.
7. The appraiser is not required to give testimony or appear in court because of having made the appraisal with reference to the property in question, unless arrangements have been previously made for such a service.

## **GENERAL ASSUMPTIONS AND LIMITING CONDITIONS**

8. The market value herein reported is based on economic and market conditions prevailing as of the date of the appraised value. This market value could vary at a later date due to changing market or economic conditions. It is the appraiser's opinion that the subject property would sell in an appropriate time period should it be offered on the open real estate market at the date of appraisal at about the appraised value subject to the appraisal assumptions; but a guarantee of such a sale is not implied or warranted.
9. Neither all, nor any part of the contents of the report, or copy thereof (including conclusions as to the property value, the identity of the appraiser, professional designations, reference to any professional appraisal organizations, or the firm with which the appraiser is connected), shall be used for any purposes by anyone but the intended user(s) specified in the report without the written consent of the appraiser. It shall also not be conveyed by anyone to the public through advertising, public relations, news, sales, or other media, without the written consent and approval of the appraiser(s).
10. This appraisal report and its contents must be regarded as a whole and any excerpts from this appraisal cannot be used separately, and if used separately, invalidates this appraisal. Any distribution of the valuation in the report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
11. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.
12. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined and considered in the appraisal report.
13. It is assumed that all required licenses, consents or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
14. It is assumed that the utilization of the land is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted within the report.
15. No environmental impact studies were either requested or made in conjunction with this appraisal, and the appraiser hereby reserves the right to alter, amend, revise or rescind any of the value opinions based upon any subsequent environmental impact studies, research or investigation.

## ***GENERAL ASSUMPTIONS AND LIMITING CONDITIONS***

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16. The Americans with Disabilities Act of 1990 (ADA) is effective as of January 26, 1992, and is a federal civil rights law for individuals with disabilities, which prohibits discriminatory practices in design and operation of places of business. Owners, landlords, tenants, and operators of business property are jointly and severally responsible for compliance and should undertake audits to determine the extent to which facilities are affected by Title III. To the best of the appraiser(s) knowledge, an ADA audit has not been completed for the subject improvements. If such an audit was conducted, there may be significant costs necessary to comply with ADA. The appraiser, however, is not qualified to detect any such non-compliance items, if present, which may negatively affect the value of the subject property. This value estimate is predicated upon the assumption that there is no such ADA non-compliance items on, in, or potentially affecting the subject property that would cause a loss in value. No responsibility is assumed for any such non-compliance conditions or for any expertise or engineering knowledge required to discover ADA non-compliance conditions. The intended user(s) of this report are urged to retain experts in this field if desired or concerned about these issues.
17. Acceptance of and/or use of this appraisal report constitutes acceptance of the foregoing general assumptions and limiting conditions.
18. There may be other assumptions and limiting conditions not mentioned in items Nos. 1-17 which have been previously described in this appraisal report.

## ***PURPOSE AND INTENDED USE/USERS OF THE APPRAISAL***

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The purpose of this appraisal is to estimate the fee simple 'as is' market value of the subject property as of January 21<sup>st</sup>, 2009 conforming to the market value definition on the next page.

It is understood that this appraisal will be used by the City of Minneapolis to assist in negotiating a sale of the property. This report has no other intended users. The appraisers are not responsible for unauthorized distribution and/or use of this report.

## **PROPERTY RIGHTS BEING APPRAISED**

The specified property rights in the real estate being considered in the valuation must be identified. The definition of the three most common property rights from the The Dictionary of Real Estate Appraisal, Fourth Edition, published by the Appraisal Institute, 2002 is as follows:

**FEE SIMPLE ESTATE** which is an *"absolute ownership unencumbered by any other interest or estate; subject only to the limitations of eminent domain, escheat, police power, and taxation"*.

**LEASED FEE ESTATE** which is an *"ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; usually consists of the right to receive rent and the right to repossession at the termination of the lease"*.

**LEASEHOLD INTEREST** which is the *"right to use and occupy real estate for a stated term and under certain conditions; conveyed by a lease"*.

The property rights considered in this appraisal assignment consist of the FEE SIMPLE ESTATE.

## **DEFINITION OF VALUE**

"Market Value" as used in this report, is as defined under FIRREA Appraisal Standards in the Federal Register, Vol. 55, No. 165, August 24, 1990, "Rules and Regulations", 34.42 as below:

*"Market value is the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of good title from seller to buyer under conditions whereby:*

- 1) Buyer and seller are typically motivated;*
- 2) Both parties are well informed or well advised and acting in what they consider their own best interest;*
- 3) A reasonable time is allowed for exposure in the open market;*
- 4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- 5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale, or other special or creative terms, services, fees, costs or credits involved in the transaction."*

## ***VALUATION DATE***

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This appraisal has an effective date of value of ***January 21<sup>st</sup>, 2009*** and is based upon market conditions prevailing at that time. The exterior of the subject property was inspected by Darren Browen on January 15<sup>th</sup>, 2009 and the interior and exterior was inspected by Robert Lunz on January 21<sup>st</sup>, 2009. Darren Browen had previously inspected the interior of the property in March 2007. The property has been vacant for the most part over the past 10 years.

## ***SCOPE OF WORK***

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The scope of this appraisal assignment involved researching general market conditions and interviewing market participants. The specific real estate information that was researched and related to this appraisal assignment included comparable building sales and rentals. In addition, renovation costs of older buildings were also researched. As part of this research, several market participants including local developers, brokers, buyers, and sellers were interviewed. The appraisers were able to analyze a large amount of data that was available through a regional appraiser-sharing database and a regional broker-sharing database. These databases contain sale information (if applicable), physical characteristics, and some income-related information on properties located throughout the Twin Cities. Nicollet Partners also has a large in-house database that was relied upon. The appraisers either directly or indirectly verified all of the comparables and data analyzed in this report. The results of this research indicated there was an adequate amount of data to produce a *credible* value conclusion.

All of the information was then used in determining the highest and best use of the property and the completion of two of the three standard approaches to value, the Sales Comparison and Income approaches. The final reconciliation of the value estimate was then based upon these two approaches to value. The Cost Approach was not considered applicable given the age and condition of the improvements (i.e., a depreciation estimate is very subjective for this type of property). Components of the Cost Approach were developed in order to estimate the renovation costs of the subject property (i.e. deferred maintenance items were identified).

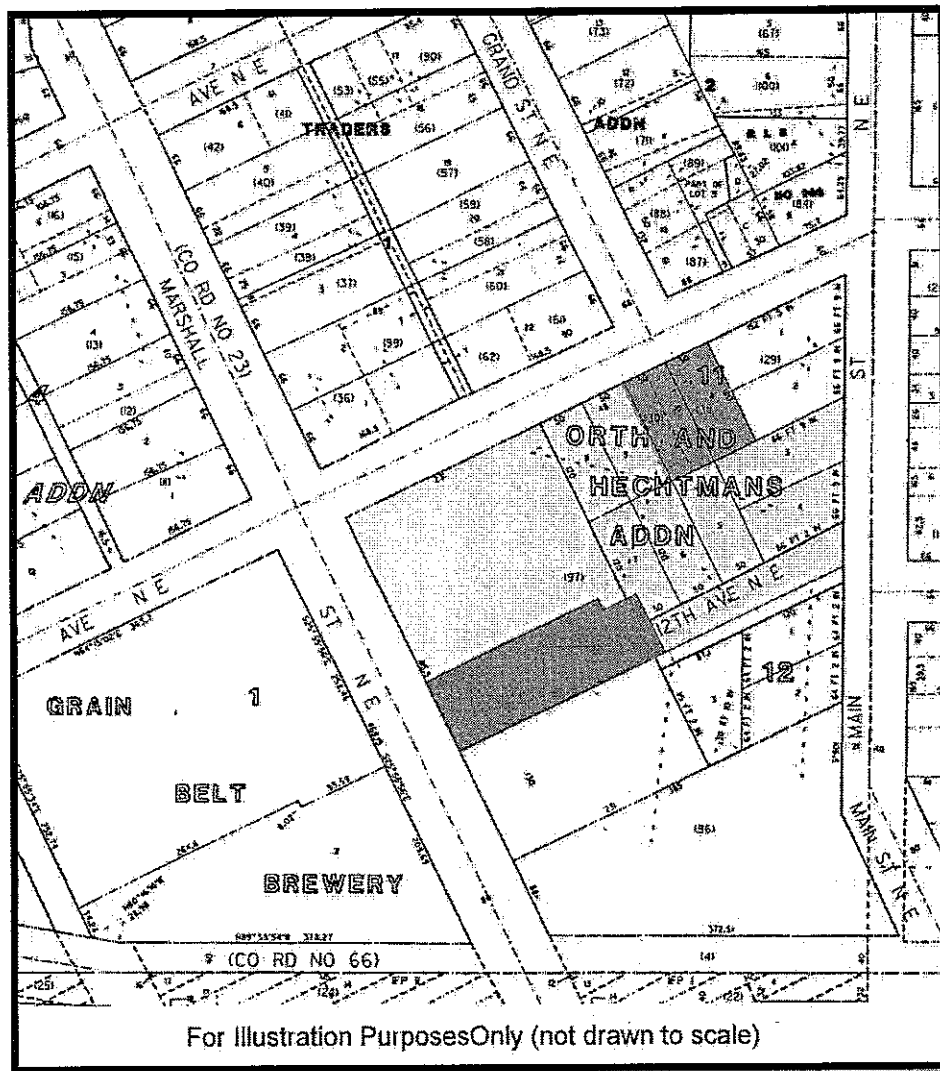
## **PART THREE – SUBJECT DATA PRESENTATION**

## ***IDENTIFICATION THE PROPERTY***

The physical address of the subject property is 1215 Northeast Marshall Street, Minneapolis, MN. The property will be referred to in this report as the "subject property", "subject", or the "Grain Belt Office Property".

Photographs of the subject property were previously presented in the front of the report. A copy of the Plat Map is presented below. A legal description was not available as it represents a small portion of an existing larger parcel of land (light red and yellow shaded areas). It is assumed the actual legal description of the subject property, once written, will correspond with the property identified below (light red shaded area). The approximate dimensions of the subdivided subject parcel are 95' x 240'. The blue shaded area is being assembled with the yellow shaded area for the Grain Belt Housing Redevelopment Project, which is further described in the upcoming *Property History* section of the report.

## ***PLAT MAP***



***PLAT MAP***





## ***TAXES AND ASSESSMENTS***

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The subject property is part of a larger parcel that currently has a tax code identification number (PID) of 15-029-24-14-0097. The property currently has a tax-exempt status as it is owned by the City of Minneapolis.

## ***PROPERTY HISTORY***

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The subject property is part of a larger parcel of land, as identified on the previous page, owned by the City of Minneapolis. The only improvements on this larger parcel of land are the subject office building. The Casswell Manufacturing building and two small residential homes were razed in 2005-2006 as part of Grain Belt Housing Redevelopment Project. This project has taken different forms over time and the developer originally awarded the project, Sheridan Development Company, LLC, is no longer part of the project. The City of Minneapolis envisions the redevelopment of the site to consist of renovation of the subject improvements and the construction of a new multi-family complex with some street-level retail bays. The number of residential units will likely be somewhere between 170 to 240 depending on the type/size of the units, and whether or not they are rental versus owner-occupied units. The City would prefer to have owner-occupied units. However, given the lack of success of the nearby Crescent Trace Condominiums and the current distressed housing market conditions, an owner-occupied type of residential development is likely several years away from being feasible. The current plan by the City of Minneapolis is to hold the residential portion of the development until the housing market conditions have improved, and to find a buyer who would willing to undertake a relatively immediate renovation of the subject Grain Belt Office property.

The northwest corner of the larger parcel is a historically designated site that contains the foundation of the Orth Brewery that dates back to the 1850's. As such, no improvements can be constructed upon this historically designated portion of the site. This portion of the larger parcel is not part of the subject property, but will protect the sight lines of the subject.

The subject office building was constructed in 1892 as part of the surrounding Grain Belt brewery complex. The building has been vacant for the most part of the last 10 years. Prior to being vacated in approximately 1998, the building was used as an office facility by the City of Minneapolis. The City acquired the property around 1991, and at that time, performed some asbestos removal, installed a sprinkler system for fire protection, installed two new boilers, networked most of the building, and added handicap accessible bathrooms on the first floor. However, the building still suffers from deferred maintenance, especially since it has been vacant for the most part over the past 10 years. A more extensive discussion of these items is located in the *Deferred Maintenance* section of the report.

## ***PROPERTY HISTORY***

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The subject property was first marketed for sale by the City of Minneapolis in 2006 via a Request for Proposals (RFP) process. The City's development goals for the subject property are to find a buyer willing to renovate the historically designated improvements with an office, restaurant, event center, etc. type of use as quickly as possible. In late 2006, the City received five bids and the winning bid of \$650,000 was awarded to United Properties. As part of their due diligence prior to closing on the sale, United Properties discovered asbestos that was estimated to cost \$200,000 to remove. More importantly though, United Properties was unsuccessful at securing adequate parking for the facility and the office tenant they were representing was no longer interested in the property if adequate on-site parking could not be provided. Thus, United Properties did not close on the property. The City went back to the other four bidders requesting they re-submit their bids. Only one bid was re-submitted and the subject property is currently under contract for \$400,000 with this bidder, Space Unlimited (Kristi Oman), who is asking to re-negotiate the sale price since a drainage problem was discovered as part of the buyer's due diligence. The corrective measures for the drainage problem include re-grading the surrounding vacant city-owned land, installing drain tile and/or french drains, and connecting the drain tile to the city storm sewer system. It may also be necessary to upgrade the City's storm sewer system in the area. Based on a quote provided by Loucks Associates, the cost to correct the drainage problem ranges from \$100,000 to \$600,000 depending on the solution selected. A specific corrective plan was not proposed as additional studies were necessary. A more extensive discussion of the cost to correct the drainage problem is located in the *Deferred Maintenance* section of the report.

The property has not traded or been publicly available for sale over the past three-year period with the exception of the RFP process described above.

## **ZONING**

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The subject property has a C-1, Neighborhood Commercial District zoning classification by the City of Minneapolis. This classification is intended to provide a convenient shopping environment for small-scale retail sales, and commercial services that are compatible with adjacent residential uses. In addition to commercial uses, residential uses, institutional and public uses, parking facilities, limited production and processing and public services and utilities are allowed.

### **Uses**

Permitted uses in the district generally include retail sales/services, banks, grocery stores, laundry, clinics, offices, coffee shops, restaurants, and residential dwellings (1-4 units).

### **Building Requirements**

There are no minimum lot size or setback requirements for most commercial uses in the above zoning district. The exception would be for commercial uses with a drive-through lane and commercial uses that abut office or residence districts. The subject property abuts a residential district to the east and this would result in a minimum rear yard setback of 5' for any improvements constructed upon the site.

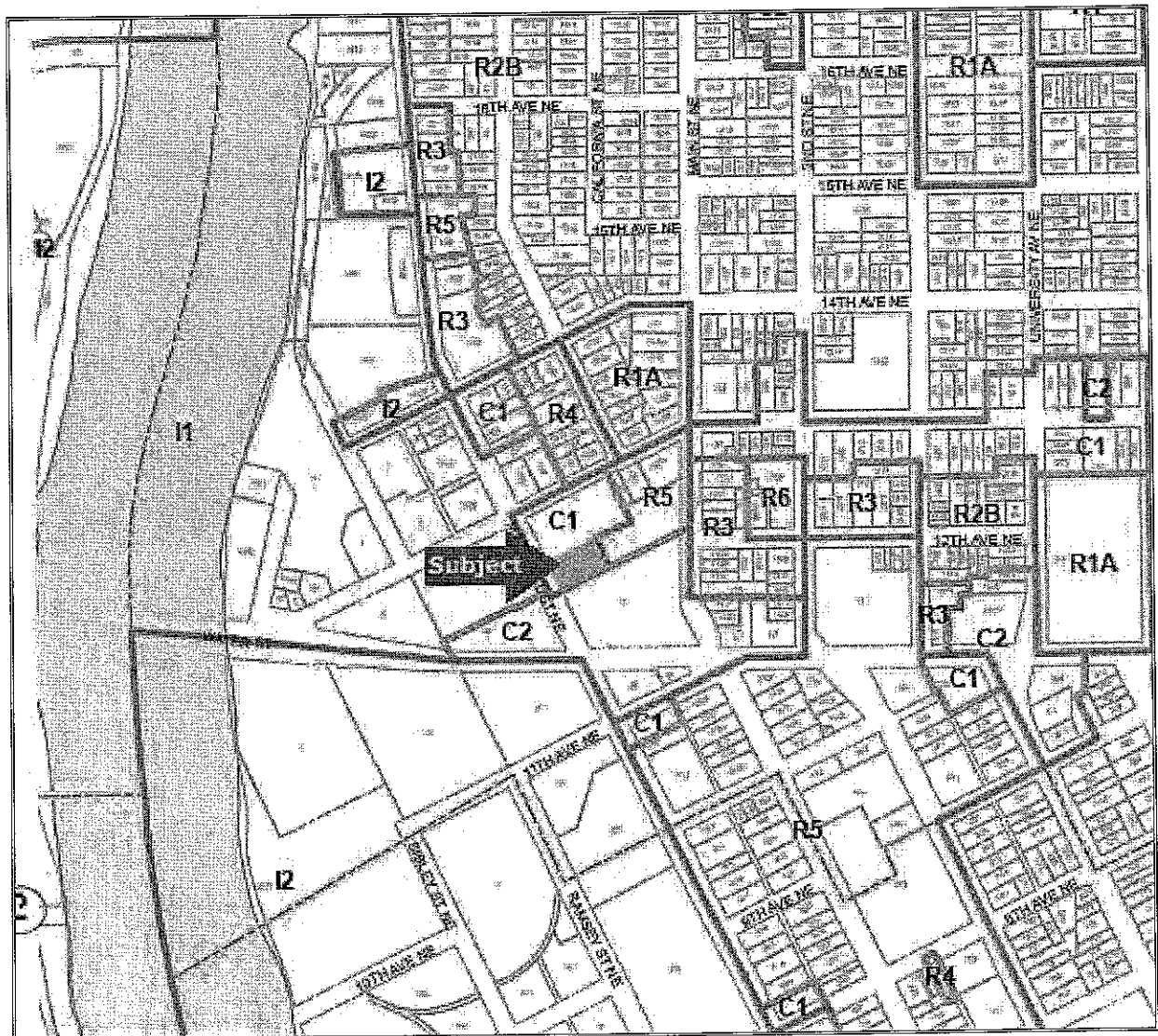
A minimum lot size of 5,000 square feet is required for a residential dwelling (1 to 4 units) and a minimum lot width of 40 feet in this district. The C-1 district also limits the building size to a maximum of 4,000 square feet and the maximum lot size is limited to 20,000 square feet. The building height is limited to 2.5 stories, or 35 feet, whichever is less. The maximum floor area ratio for all structures is 1.7x the land area. A variance would be necessary to construct the subject building new in that it exceed 4,000 square feet and is situated on a land parcel that exceeds >20,000 square feet.

### **Parking Requirements**

The parking requirements vary by use with most retail/office uses requiring one parking space per 300 square feet of gross floor area in excess of 4,000 square feet. Based upon the subject's rentable area of 13,357 square feet, the City would require an office user to have 32 on-site parking stalls. The subject site will have 34 on-site parking stalls or 1 per 393 square feet of rentable area. In general, the market requires roughly 1 parking stall per 250 to 300 square feet of rentable area for office users. This would equate to 45 to 53 on-site parking stalls to adequately service the subject property.

Based on the above market criteria and a review of the zoning standards, the subject property as improved, is a legal, non-conforming use on the site. The subject's building area exceeds the maximum allowed area and the subject land parcel exceeds the maximum allowable size. A copy of the Zoning Map is presented on the next page.

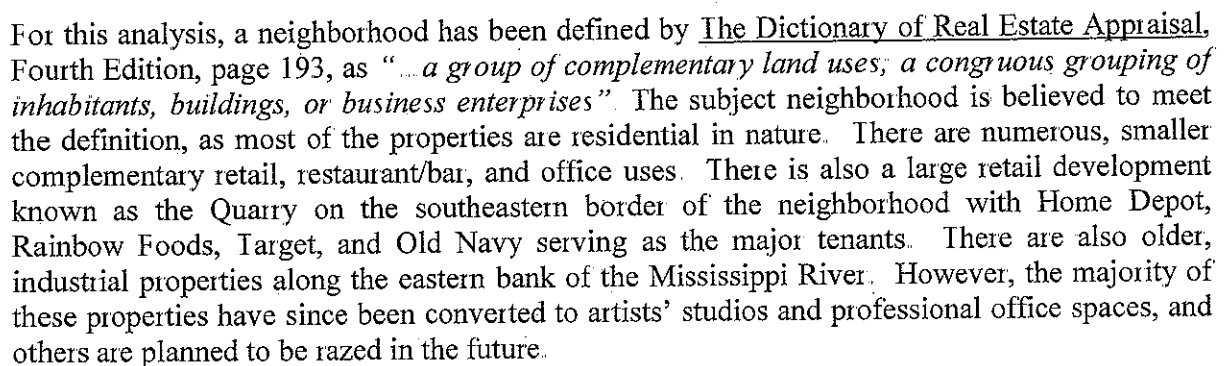
## ZONING



ZONING MAP

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The subject property is located in the part of Minneapolis known as Northeast. Northeast is composed of 13 neighborhoods, and the subject is located in the Sheridan neighborhood. For the purposes of this analysis, the subject's neighborhood is considered the entire Northeast section of Minneapolis. The neighborhood boundaries are demarcated in the map below:



## NEIGHBORHOOD DESCRIPTION

Access to and through the subject neighborhood is considered to be good via Interstate 94, a major north/south freeway situated on the west side of the neighborhood, and Interstate 35W, a major north/south corridor on the east edge of the neighborhood. Central Avenue (MN Highway 65), University Avenue (MN Highway 47), and NE Marshall Street are major collector streets that are located between I-94 and I-35W that also travel in a north/south direction and provide good access into Downtown Minneapolis. Broadway Street is the area's major east/west running street. It connects I-94 to I-35W, and also contains one of the few bridges in the area that crosses the Mississippi River. Lowry Avenue is also an east/west collector street that crosses the Mississippi River, however, this street lacks an access ramp to I-94 and the bridge crossing the Mississippi River is also closed due to safety concerns. Hennepin County is currently in the planning stages for the replacement of this bridge, and it is anticipated that the planning process will last through 2009 with the earliest bridge opening occurring in 2012. It should also be noted that funding for the \$100 million plus replacement cost has yet to be secured. A traffic volume map is presented on an upcoming page that illustrates the traffic flow patterns in the subject's neighborhood.

The subject's neighborhood has a long residential history with the majority of the homes being developed prior to the 1940's. The area was originally known for its industrial and immigrant heritage. In the early days, Polish, Ukrainian, Lebanese and German immigrants anchored the population in Northeast. The presence of these cultures is still present in the area's establishments, such as the neighborhood's restaurants, bars and grocery stores, and the churches all of which have been around for decades.

In terms of life cycle, the subject neighborhood is in a stage of *revitalization*. This is evident based on a number of factors. First, the single-family home values have steadily increased over the past seven years and have out-paced the six-year growth rate of the ICMA as a whole. This is largely attributable to the area gaining in popularity with young families, artists, professionals, and immigrants. Below is a table showing the home values for single-family and condo/townhomes in Northeast Minneapolis and the Twin Cities over the past eight years. Similar to the rest of the Twin Cities, home values have declined in 2007 and 2008. The housing trends for the Twin Cities, which also apply to the subject's neighborhood, are discussed in the *Twin Cities Market Area* description of the report.

Average Home Sale Prices				
Year	Northeast Minneapolis		Twin Cities	
	Sale Price	% Change from Prior Year	Sale Price	% Change from Prior Year
2000	\$128,335	---	\$181,605	---
2001	\$148,796	16%	\$203,136	12%
2002	\$168,894	14%	\$221,275	9%
2003	\$187,518	11%	\$238,446	8%
2004	\$200,452	7%	\$256,252	7%
2005	\$209,454	4%	\$272,522	6%
2006	\$214,526	2%	\$278,462	2%
2007	\$199,242	-7%	\$272,767	-2%
2008	\$162,345	-19%	\$236,286	-13%
'00-'08 Annual Appreciation Rate		3.0%		3.3%

Source: The Realtor

## ***NEIGHBORHOOD DESCRIPTION***

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Northeast Minneapolis is the center of the visual arts scene in Minneapolis with more than 400 independent artists who live or work in the area. These artists have largely been the driving force behind the renovation of several of the older properties in the neighborhood from large industrial buildings such the California Building and those located in the Grain Belt Brewery complex, to small mixed-use neighborhood buildings. With these renovations, the neighborhood has become more visually appealing, and the popularity of the area has steadily grown with several new restaurants/bars, coffee shops, and artist galleries opening.

There are three new developments planned or recently completed in the immediate vicinity of the subject, the Grain Belt Housing Development, Marshall River Run, and Crescent Trace.

The Grain Belt Housing Development is situated adjacent to the subject and at one time was to consist of 4,000 square feet of retail space and 177 condominium units priced between \$190,000 and \$265,000 with the developer being Sheridan Development Company, LLC. The City of Minneapolis owns this land and Sheridan Development Company was awarded this project, however, this developer is no longer part of the project. The City of Minneapolis envisions the redevelopment of the site to consist of a multi-family complex with some street-level retail bays. The number of residential units will likely be somewhere between 170 to 240 depending on the type/size of the units, and whether they will be rental or owner-occupied units. The City would prefer to have owner-occupied units. However, given the lack of success of the nearby Crescent Trace Condominiums, and the current housing market conditions, an owner-occupied type of development is likely several years away from being feasible. The current plan by the City of Minneapolis is to hold the residential portion of the development for five years to see if the housing market conditions have improved.

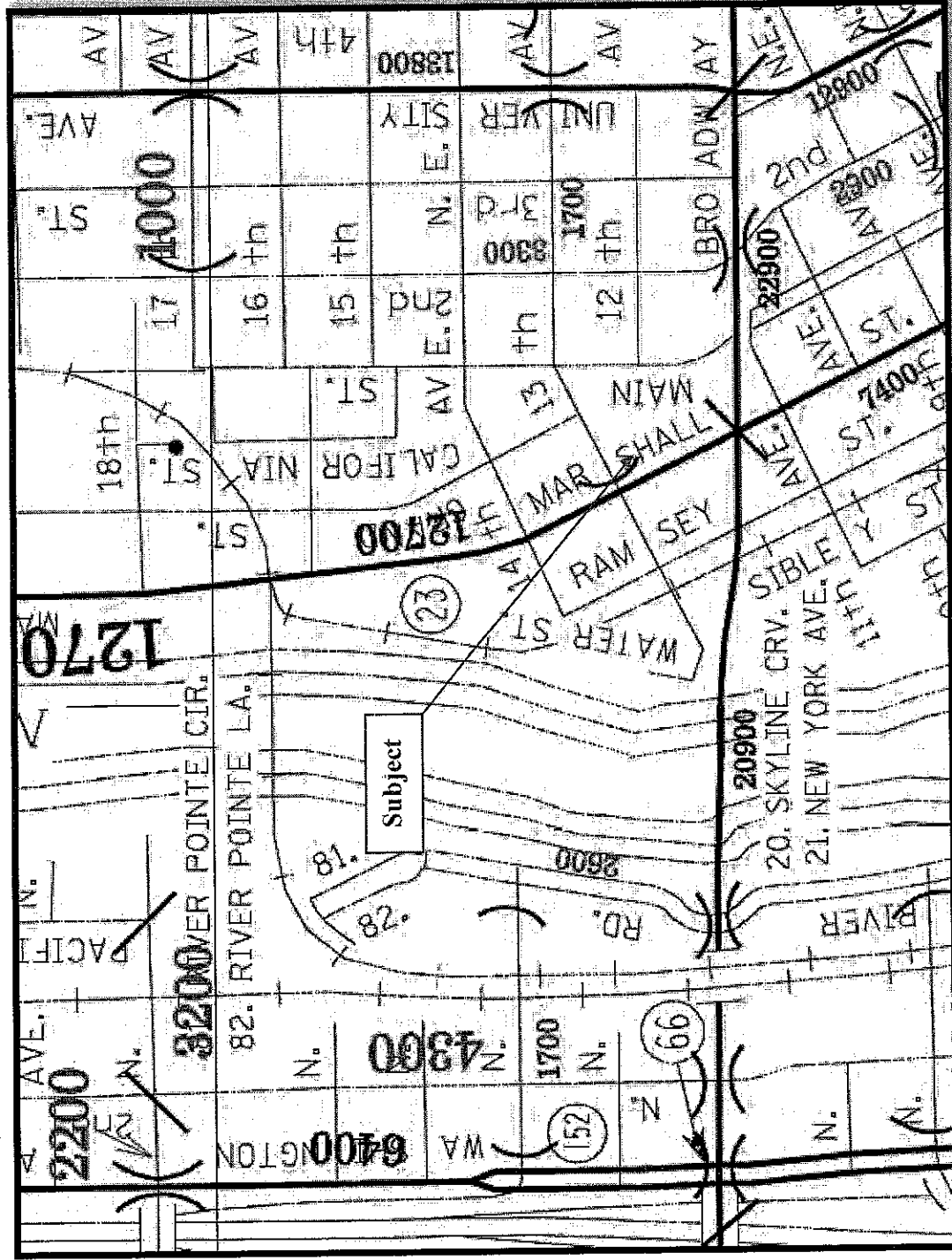
Marshall River Run consists of a 74-unit rental apartment building and 10 owner-occupied townhomes. The rental project was completed in 2005-2006, and the townhomes were completed in 2007 with the average unit priced at \$279,000.

Crescent Trace is a mixed-use project constructed in 2006-2007. The project consists of 1<sup>st</sup> floor retail bays and 56 condominium units priced from \$190,000 to \$320,000 on floors two through five. This project was unsuccessful at selling the condominium units and leasing the 1<sup>st</sup> floor retail space. Catholic Charities acquired the condominium units in March 2008 for the conversion to senior housing. The retail space currently has 5,000 square feet available with an asking rent of \$16.00 per square foot on a net basis. The retail space totals just over 11,000 square feet.

Market expectations for the subject's neighborhood are for a period of stabilization with little growth/new construction occurring over the next 3 to 5 years as the result of the current weak economic outlook. Housing values are anticipated to continue to decline in 2009 before stabilizing in 2010 or 2011. When the economic outlook strengthens, it is anticipated the neighborhood will experience more growth of small businesses requiring office/work space, including artist, architects, accountants, lawyers, psychiatrists, physical therapists, real estate related professionals, insurance agents, dentists, engineers, software programmers, web developers, etc., who desire the character of an older inner city neighborhood location.



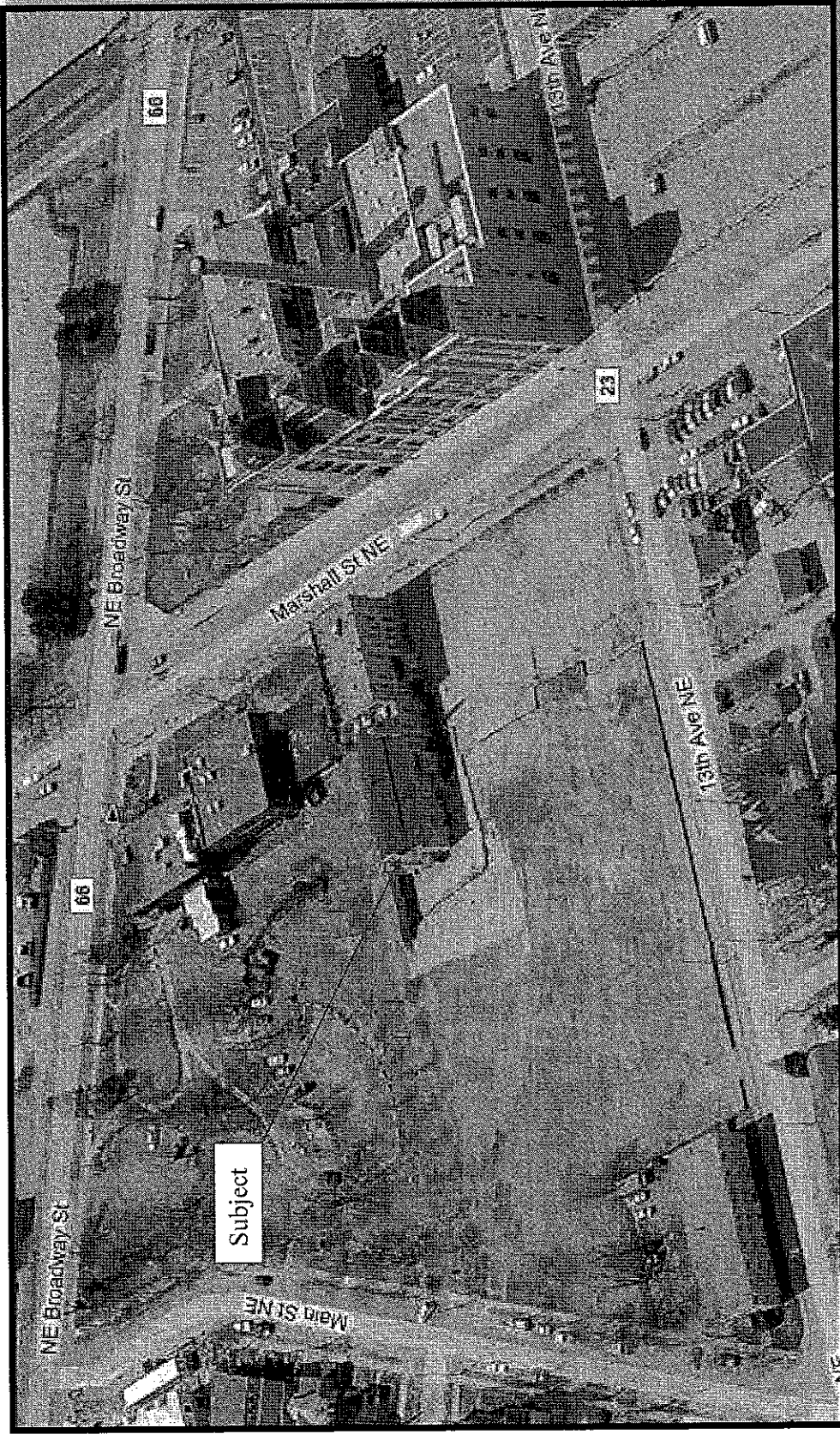
# TRAFFIC VOLUME MAP



TRAFFIC VOLUME MAP (2007 MnDOT Data)



**AERIAL PHOTOGRAPH**



**AERIAL PHOTOGRAPH (SOUTH FACING)**

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## ***DESCRIPTION OF THE LAND***

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The property is situated on a mid-block lot with approximately 95 feet of frontage along Marshall Street Northeast. The subject site is a half block north of Broadway Street NE and approximately three blocks east of the Mississippi River. The subject site is located in a historic district that was the former Grain Belt Brewery campus. Marshall Street Northeast is a north/south running collector street that has two lanes of traffic in each direction by the subject. Broadway Street Northeast is an east/west major collector street with two lanes in each direction. A copy of a preliminary site plan is provided at the end of this section. The subject lot will be subdivided from a larger parcel of land as previously shown on the Plat Map that was drawn by the appraisers for illustration purposes. The subject site will have the following characteristics:

<b>Land Area:</b>	±22,800 square feet, or 0.52 acre
<b>Shape:</b>	Rectangular
<b>Topography:</b>	The site is generally level with street grade. There is a retaining wall along the south side of the property.
<b>Street Frontage:</b>	95 lineal feet along Marshall Street Northeast
<b>Daily Traffic Volume:</b>	12,700 vehicles per day
<b>Accessibility:</b>	Average
<b>Curb Cuts:</b>	None – The subject site will be accessed via a permanent driveway easement. This driveway will run along the subject's northern property boundary and will be accessed via a curb cut along Marshall Street Northeast.
<b>Zoning:</b>	C-1, Neighborhood Commercial District
<b>Flood Zone:</b>	Zone X; Map Panel 27053-C0357-E; Map Date: 9/2/2004
<b>Census Tract:</b>	27053-0024 00-3
<b>Utilities:</b>	Municipal water and sewer are available to the site, as well as natural gas, electricity, and telephone.
<b>Apparent Easements:</b>	Typical necessary utility easements are assumed. Based on discussions with Judy Cedar, City of Minneapolis, the subject site will also have a permanent driveway easement and potentially a storm sewer easement. No other easements were noted or are considered in this valuation.

## ***DESCRIPTION OF THE LAND***

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- Soils:** Soil tests of the land parcel were not available for review; it is assumed the land is capable of supporting building loads typical of its neighborhood.
- Hazardous Conditions:** Nicollet Partners, Inc. makes no representation regarding the existence or non-existence of hazardous wastes or substances on-site that may impact the market value of the subject property.
- Neighboring Uses:**
- North – Orth Ruins public plaza
  - South – Northeast State Bank
  - East – Vacant lot (future residential development)
  - West – RSP Architects in the former Grain Belt Brewery plant that has been renovated to office space.

# FLOOD MAP

**InterFlood**



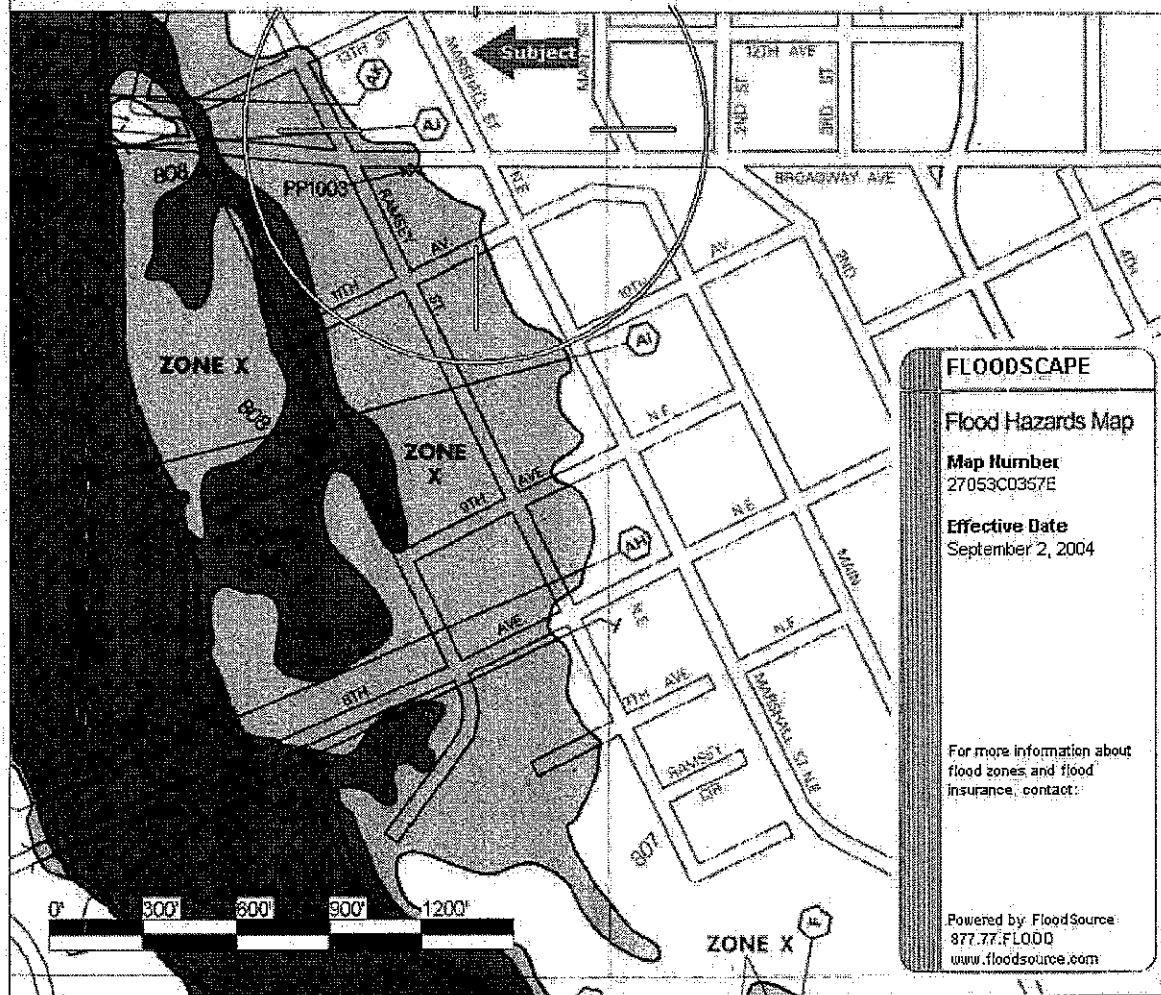
www.interflood.com • 1-800-252-6633

**Prepared for:**

Nicollet Partners

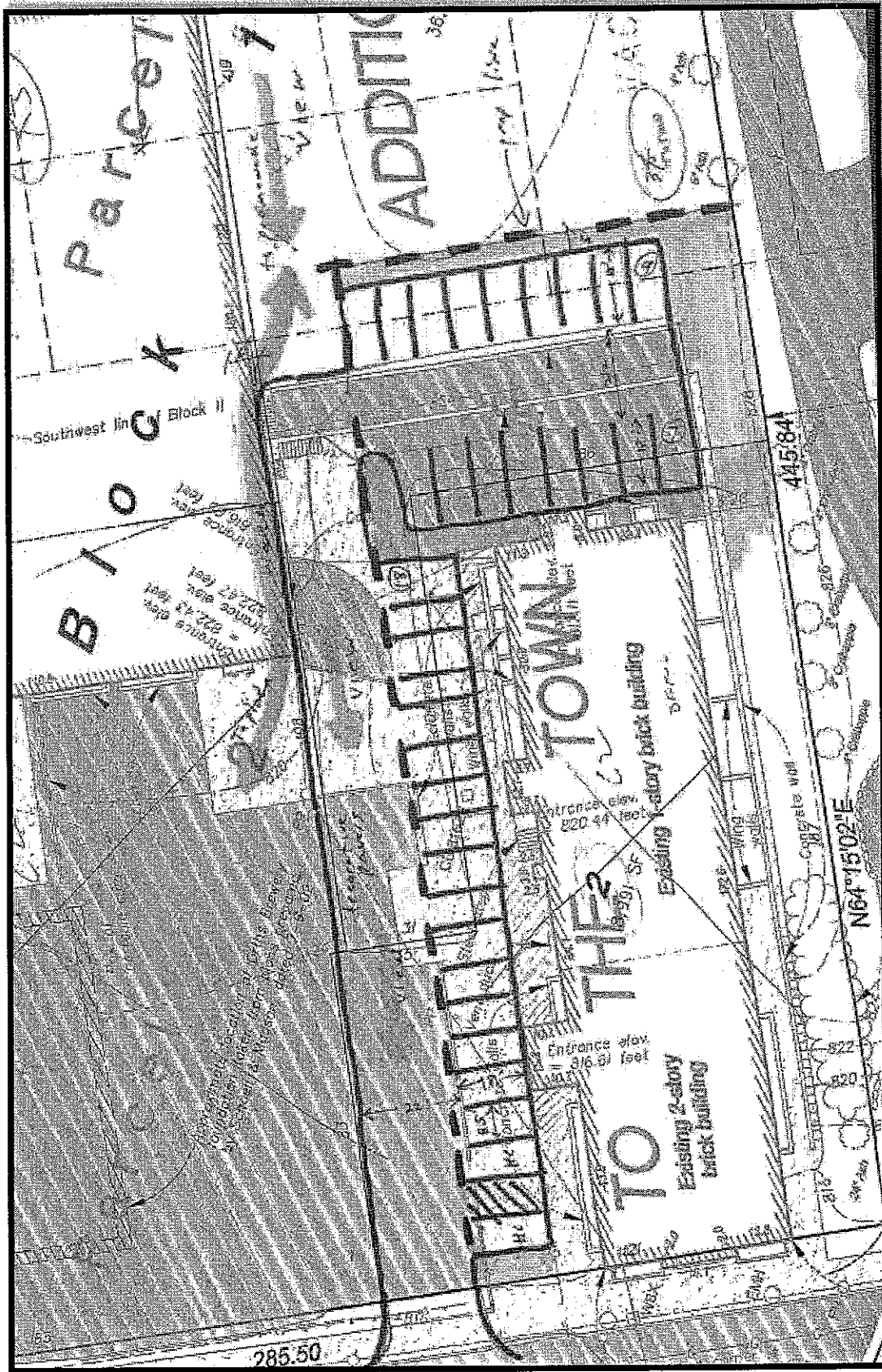
1215 Marshall St NE

Minneapolis, MN 55413-1035



© 1999-2005 SourceProse and/or FloodSource Corporations. All rights reserved. Patents 6,631,326 and 6,878,815. Other patents pending. For info: info@floodsource.com.

PRELIMINARY SITE PLAN (PROVIDED BY THE CITY OF MINNEAPOLIS)



Preliminary Site Plan

## **DESCRIPTION OF THE IMPROVEMENTS**

The subject improvements consist of a historic two-story office building with a basement that is partially at garden level. The front, two-story portion of the building with basement was constructed in 1892, and the one-story rear portion of the building with the garden level was subsequently added at an unknown date, likely in the early 1900's. The subject property received local designation as a historic property in 1977, and was placed on the National Register of Historic Places in July 1990.

The building has sat vacant for the most part of the last ten years. Overall, the existing improvements are in poor condition and have significant deferred maintenance items to address. Upon fixing the deferred maintenance items, the property should be in overall very good condition. It should be noted that a physical condition report identifying all deferred maintenance items and the associated costs to repair was not provided, thus the appraisers have estimated these costs. The current buyer also shared her cost estimates to renovate the property. A discussion of these costs follows the *Highest and Best Use* section of the report. It should also be noted that since the subject is historically-designated, all renovations must comply with federal, state, and local regulations regarding historic preservation. Historic tax credits of up to 20% of the renovation costs can be applied for in order to offset some of the higher costs associated with maintaining the historic nature of a building.

The building has 19,316 square feet of gross building area (GBA), including the basement and garden level. The rentable area of the building was estimated to be 13,357 square feet (69% efficiency), including the garden level with its lookout windows and 9' clear span ceiling height. The building areas were obtained from Jeff Reuter, an architect with the Collaborative Design Group, that was hired by United Properties. These areas are summarized as follows:

<b>Floor</b>	<b>GBA (sq. ft.)</b>	<b>RA (sq. ft.)</b>
1st	7,895	6,998
2nd	3,199	2,790
Garden Level	4,111	3,569
Basement	4,111	0
<b>Total</b>	<b>19,316</b>	<b>13,357</b>

The basement area has only a 7' clear span ceiling height and has been excluded from the rentable area. The difference between the GBA and the rentable areas on the other levels is the square footage associated with the exterior wall thickness and the vertical penetrations.

The building has a masonry frame with brick exterior walls and limestone and brick/block foundation wall portions. The building has a flat roof on the front two-story portion with an assumed pitch/gravel cover, and an asphalt shingle covered gable roof over the one-story rear portion. The one-story portion contains a barrel-vaulted ceiling with a stained glass skylight that has been covered on the exterior with the aforementioned gable wood roof. The exterior windows consist mainly of older, wood frame double-hung windows with aluminum combination storm window covers on the first and second floors, as well as the garden level. The roof and windows are in need of replacement but most likely have to be conformed architecturally. In addition, the building will require some degree of tuck-pointing and exterior sidewalk and stair repairs to the entrances of the building located on the west and north sides of the building.



## ***DESCRIPTION OF THE IMPROVEMENTS***

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The two-story portion of the building contains a number of large office suites, and a large, long and deep lobby/reception area. The two-story portion also has three security storage vaults (one on each level), and an open stair case leading to the second floor and basement. A small, north wall passenger elevator services floors one and two, and there is also a larger elevator that services the first floor and basement. The ceiling heights in the above grade portion of this part of the building are estimated at 12' while the basement area has only a 7' ceiling height. The mechanical systems are located in the 7' ceiling height part of the basement area and the remaining part of this low clear height basement is only desirable for storage purposes. The upper floor office finishes consist of carpeted floors, attractive high-grained wood paneling and wainscoting along the walls. Other portions of the walls contain painted or wallpapered gypsum board or plaster. The interior doors consist of 4 and 6 panel solid wood doors. There are also several older hanging antique brass light fixtures. The two-story portion of the building contains separate men and women's restrooms located on the second floor.

The one-story portion of the building, with the garden level, consists of a large open area on the first floor with an estimated 16' high, barrel-vaulted, stained glass skylight ceiling. The garden level consists of a former beer/pub area with decorative wood wall finishes and a kitchen area. The interior finishes consist of terrazzo-tiled floors, as well as carpeting, painted gypsum board or plaster walls with wood wainscoting, and a painted gypsum board or plaster ceilings. There are separate men and women's bathrooms in the basement area and a first floor unisex bathroom.

Items needing replacement or repair associated with the interior finishes of the building include: floor refinishing, painting/repair of walls, new bathrooms, and elevator service/repair. Water damage was noted in at least two areas of the building. One area was on the first floor where the original two-story building abuts the addition, and the other area was in the basement rear. The basement area has had significant exterior water penetration over the past few years. This will be further discussed in the upcoming *Deferred Maintenance Cost* section of the report. In addition, it is assumed some degree of repairs and/or complete replacement to the plumbing, electrical, and heating/cooling systems will be required.

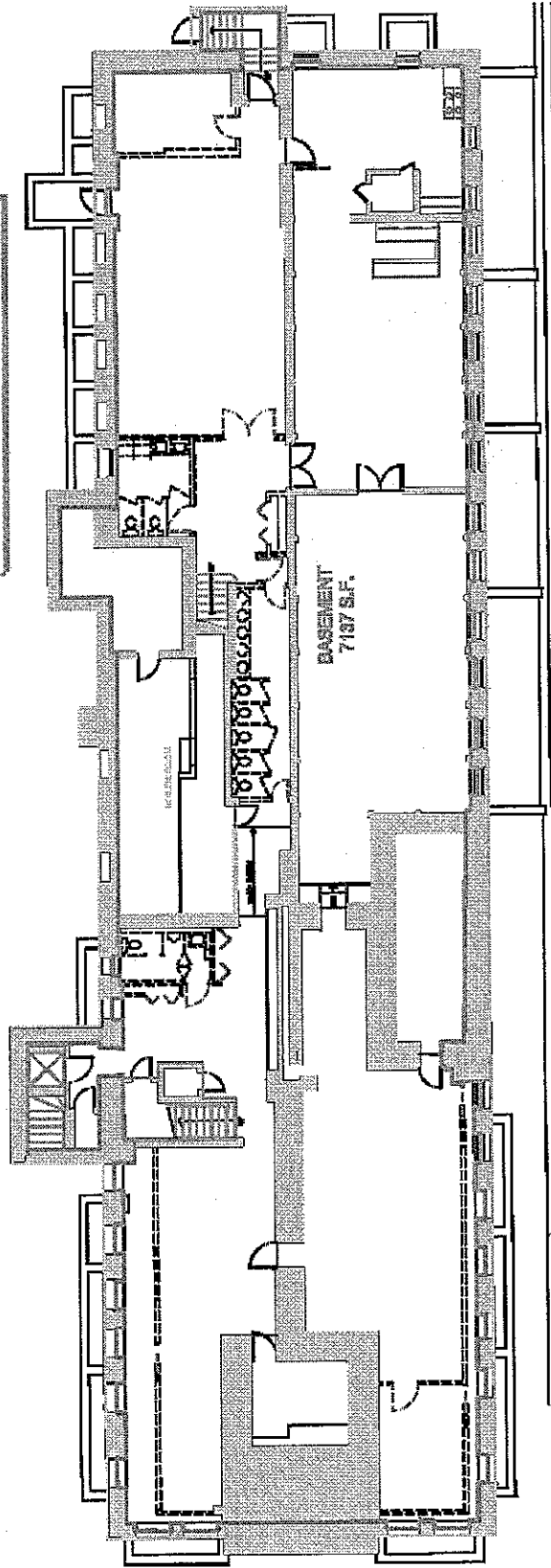
The main entrance to the building is located on the west side of the building fronting on Marshall Street NE. In addition, a secondary entrance, near the loading area, is located on the north side of the building. The building can be loaded from this entrance via a driveway easement granting access to the subject site from Marshall Street NE. There will be 34 on-site parking spaces also accessed from this driveway easement that were illustrated in the previous preliminary site plan. The subject's parking ratio will be 1 space per 393 square feet of rentable area.

The building is heated by two boilers, which were installed around 1991 when the current owner acquired the property. The building also has central air-conditioning. The electrical service is assumed to be adequate and the building is sprinklered for fire protection. It is assumed that since the building has been vacant for ten years, some repairs and possibly replacement of the heating, cooling, and sprinklering system will be required.

The building plans drawn by the Collaborative Design Group are presented on the next three pages.

# BASEMENT AND GARDEN LEVEL BUILDING PLANS

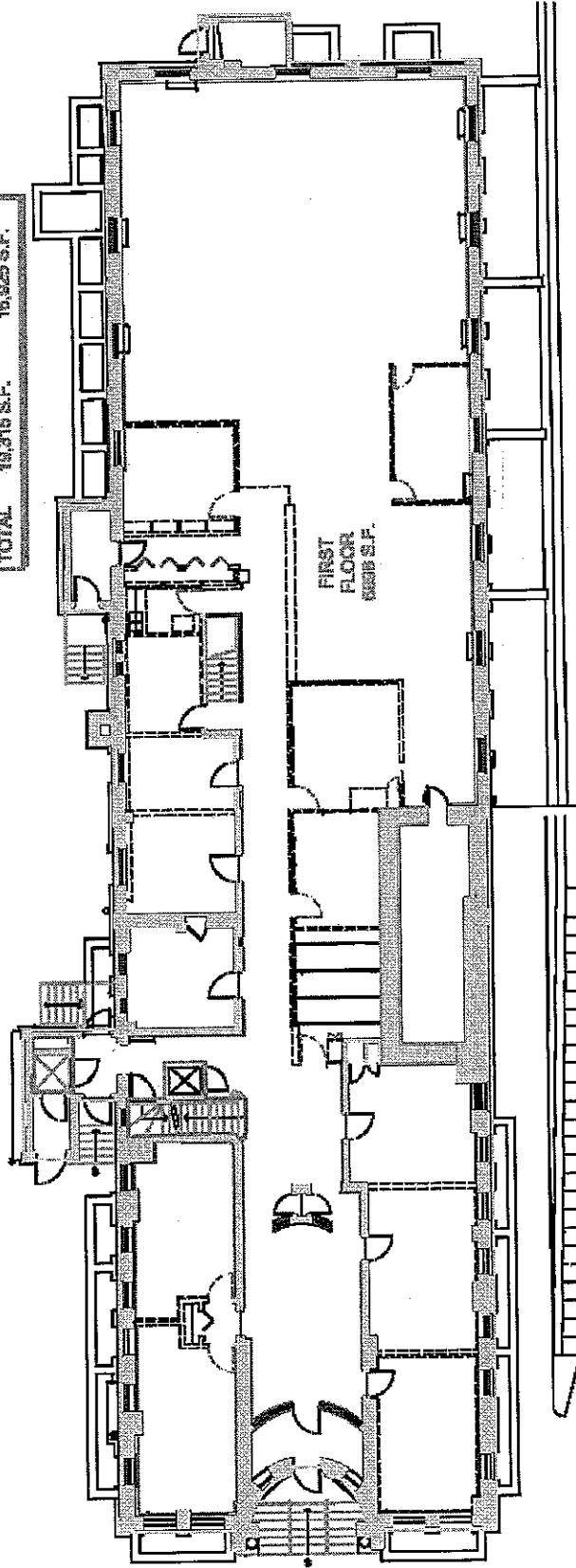
	GROSS	RENTABLE
FP-0	8,221 S.F.	7,187 S.F.
FP-1	7,696 S.F.	6,000 S.F.
FP-2	3,199 S.F.	2,790 S.F.
TOTAL	19,116 S.F.	16,977 S.F.



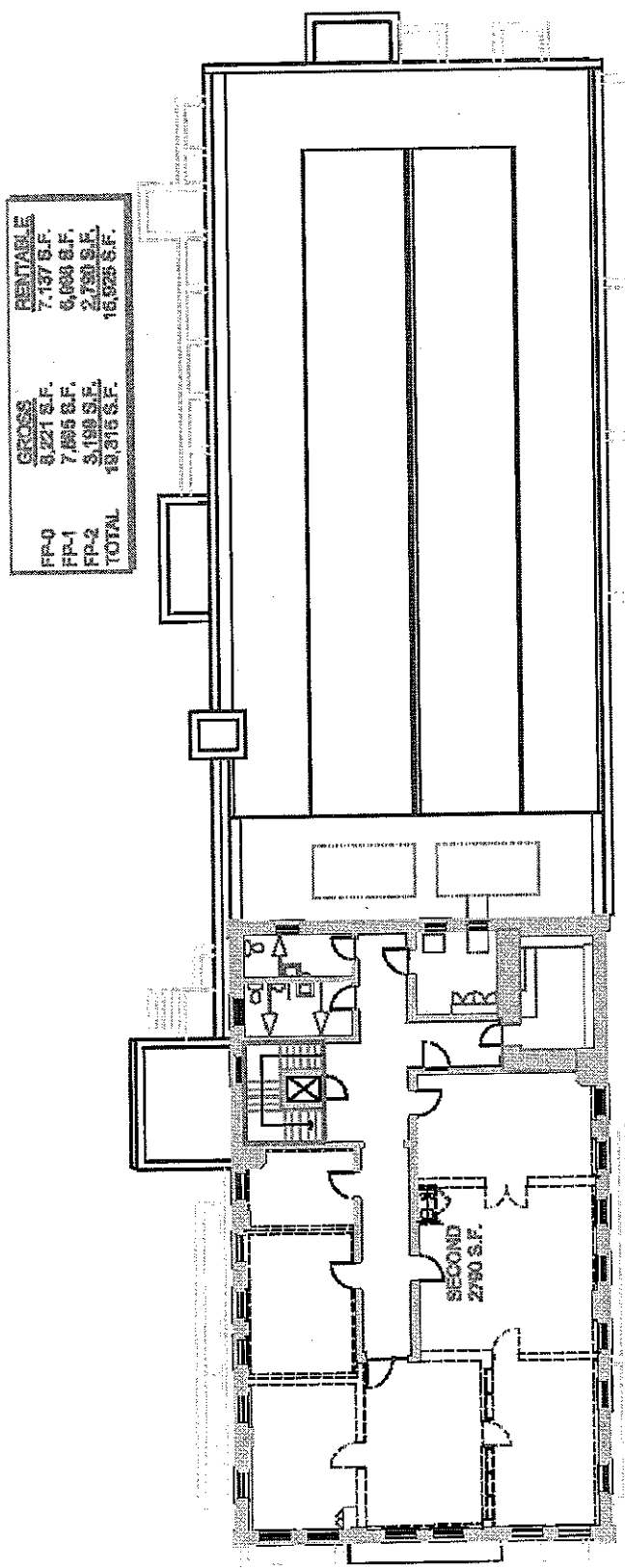


# 1<sup>ST</sup> FLOOR BUILDING PLANS

	GROSS	RENTABLE
FP-0	8,221 S.F.	7,137 S.F.
FP-1	7,085 S.F.	6,088 S.F.
FP-2	3,199 S.F.	2,790 S.F.
TOTAL	18,505 S.F.	16,015 S.F.



# 2<sup>ND</sup> FLOOR BUILDING PLANS

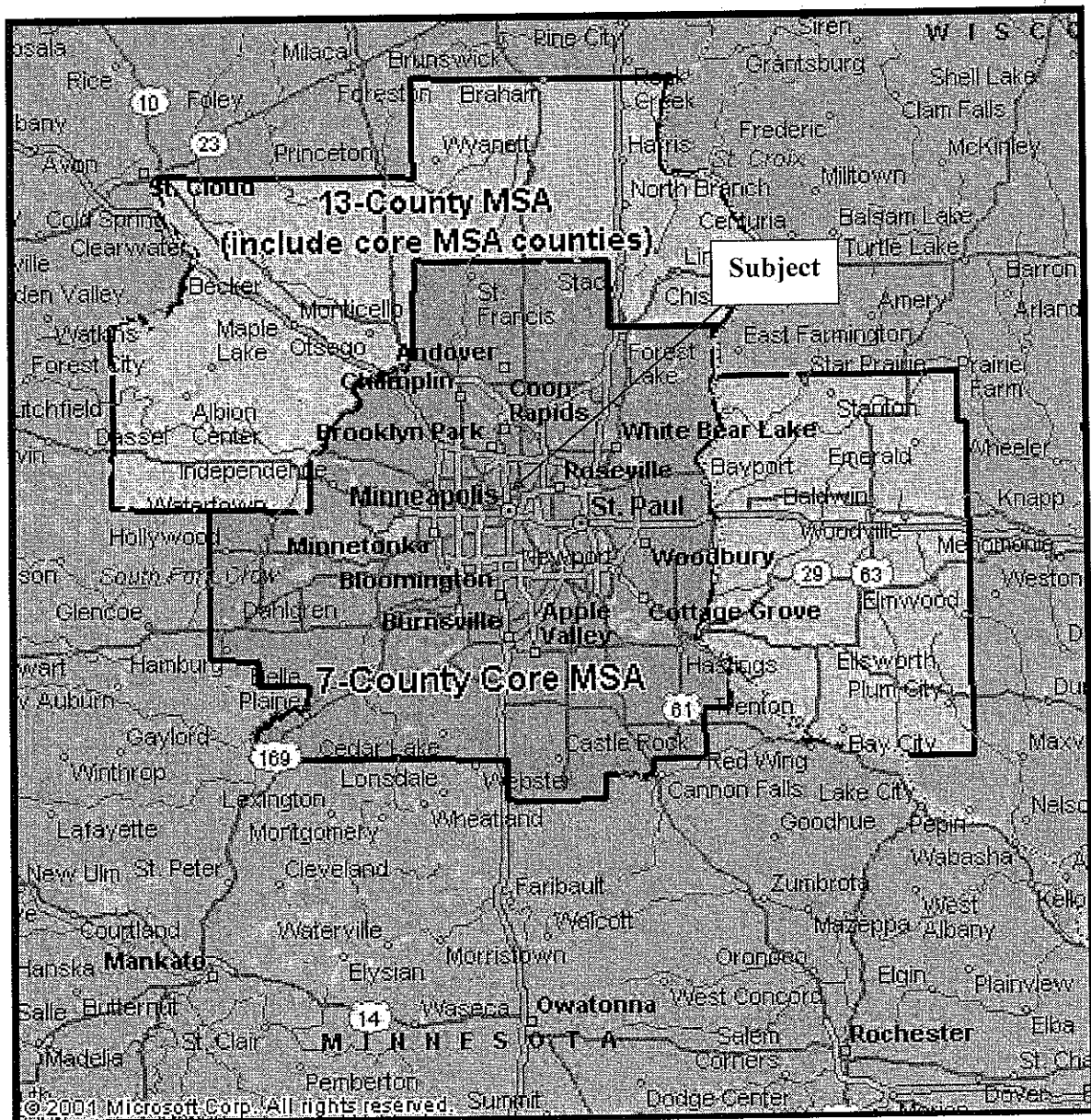


## **PART FOUR – MARKET AREA DESCRIPTION**

## ***TWIN CITIES MARKET AREA***

### ***Twin Cities Metropolitan Area (TCMA) Overview***

The subject property is located in Hennepin County, which is one of the thirteen-county Minneapolis/St. Paul Twin Cities Metropolitan Statistical Area (MSA). Of the thirteen counties that make up the MSA, eleven are located in Minnesota and two in Wisconsin. The core of the MSA consists of the 7-County area that is shaded pink in the map below. The core 7-County area, along with the six other counties shaded yellow below make up the 13-county area also known as the Minneapolis/St. Paul Twin Cities Metropolitan Statistical Area (MSA).



## ***TWIN CITIES MARKET AREA***

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The Twin Cities (Minneapolis/St. Paul and the surrounding communities) have a mature, self-sufficient economy, providing goods and services to the surrounding regions, the rest of the United States, and the world. The Twin Cities functions as both an economic and cultural center for a vast geographical area.

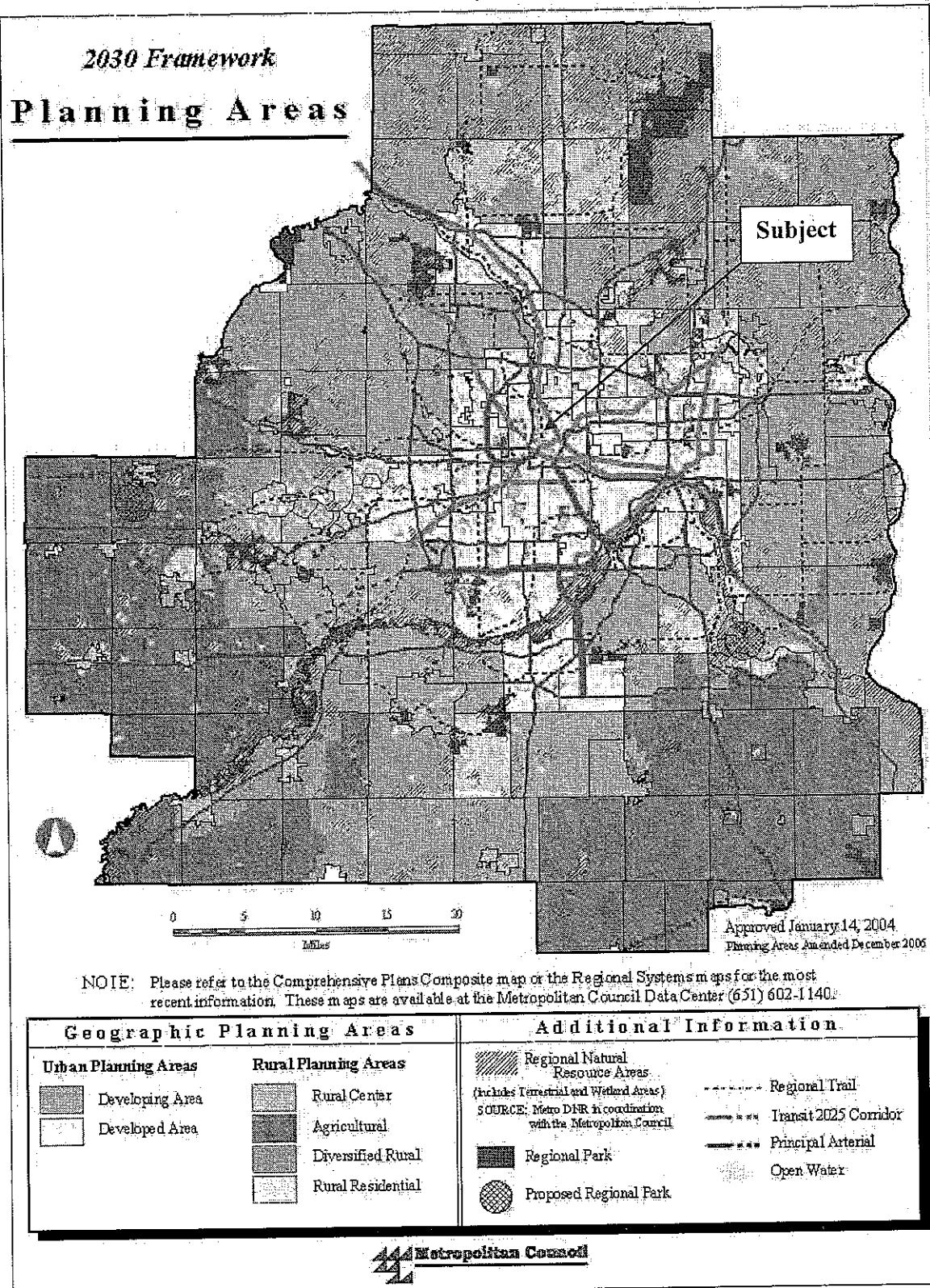
The Twin Cities has a diversified employment base that historically has fostered economic prosperity and unemployment rates consistently below the national average. Twin Cities employees reportedly possess one of the nation's lowest absentee records, approximately one-half of the national average. Their credit ratings are consistently among the highest in the nation. Minnesotans rank near the top in the United States in the number of school years completed and have consistently had a high school graduation rate over 90%, which also ranks near the top in the United States. These characteristics lend themselves to a productive workforce and an attractive place for a business to locate.

Negative aspects of the Twin Cities economy would be the relatively high personal income and corporate taxes in Minnesota compared to other states. These higher taxes have caused some manufacturers to move less skilled manufacturing jobs out of the state.

The seven-county Metropolitan Area contains nearly 200 communities and townships, each having their own unit of government. In this seven-county area, the Metropolitan Council controls comprehensive planning by coordinating activities to minimize waste and duplication. The Metropolitan Council oversees areas such as land use planning, regional transportation planning, sanitary sewer, criminal justice, and waste control. One of the objectives of the Metropolitan Council is to curb urban sprawl and encourage redevelopment of areas within the seven county-core Twin Cities. According to the Metropolitan Council, the cost to provide the infrastructure for water and sewer systems can be greatly reduced by creating higher density residential uses in the core Twin Cities that make the most use of existing infrastructure. This cost savings is largely due to the under-utilization of the existing water and sewer system in the core Twin Cities as it can handle a greater number of residential units. In addition, higher density developments have a lower impact on the environment, as less undeveloped agricultural and natural land is lost. The Metropolitan Council also has had a significant role in the current and future light rail transportation system (see map on the next page).

The Metropolitan Urban Services Area (MUSA) boundary is the main method used to control residential growth. Only those properties located within the MUSA boundary have access to public water and sewer systems. The Metropolitan Council uses its political influence to provide funding sources for water and sewer systems for those communities located within the MUSA boundary. The map on the next page was published by the Metropolitan Council and illustrates the anticipated growth areas in the seven-county area and the related long-term transportation framework. The MUSA boundary is generally along the outer edge of the developing areas, shaded light brown on the map on the following page.

# TWIN CITIES MARKET AREA



## TWIN CITIES MARKET AREA

### Land Use Trends

The table below shows the land use trends from 1980 to 2005 for the 7-County metropolitan area and the total land areas of each of the counties. In addition, it also shows the amount of land within in the MUSA boundary as of 2005. This data was not available for the 13-County area.

Land Use Trends								
Land Use (in Acres)	Total Land Area				MUSA only		'80-'05 Absorption	
	1980	1990	2000	2005	2005	% of Total	Acres	Square Miles
Residential	249,121	301,154	368,610	396,577	291,166	73%	147,456	230.4
Commercial	18,295	24,044	32,272	35,790	33,469	94%	17,495	27.3
Industrial	41,254	47,862	56,242	57,958	47,834	83%	16,704	26.1
Institutional & Recreational	144,581	156,320	195,832	215,855	126,737	59%	71,274	111.4
Major Highways	17,557	20,719	25,458	28,349	23,304	82%	10,792	16.9
Open Water Bodies & Wetlands	306,165	306,903	293,258	286,294	89,186	31%	(19,871)	(31.0)
Undeveloped & Agricultural	1,126,903	1,047,793	932,466	883,191	119,235	14%	(243,712)	(380.8)
<b>Total Twin Cities (7 Cty)</b>	<b>1,903,876</b>	<b>1,904,795</b>	<b>1,904,138</b>	<b>1,904,014</b>	<b>730,931</b>	<b>38%</b>		
Anoka County	285,513	285,413	285,206	284,972	77,504	27%		
Carver County	240,683	240,676	240,559	240,473	42,578	18%		
Dakota County	375,225	375,416	375,412	375,186	115,665	31%		
Hennepin County	388,340	388,234	387,956	387,942	278,761	72%		
Ramsey County	108,814	108,787	108,677	108,671	108,671	100%		
Scott County	235,322	235,397	235,823	236,009	38,436	16%		
Washington County	269,979	270,872	270,505	270,761	69,316	26%		

Source: Metropolitan Council

Based on the above data, a total of roughly 46% or 883,191 acres of all the land area in the 7-county area is undeveloped or agricultural land. In addition, of the land within the MUSA boundaries there is roughly 16% or 119,235 acres left to be developed. Annual absorption data by county is presented in the table below:

Land Use Absorption Trends									
	Developed Land Area (Acres)					Annual Absorption Rates (Acres)			
County	1980	1990	1997	2000	2005	'80-'90	'90-'00	'00-'05	'80-'05
Anoka	144,438	157,954	168,427	176,134	185,312	1,352	1,818	1,836	1,635
Carver	63,175	67,250	70,937	75,104	78,867	408	785	753	628
Dakota	83,998	102,885	121,296	128,347	137,768	1,889	2,546	1,884	2,151
Hennepin	244,676	268,691	281,811	291,043	299,108	2,402	2,235	1,613	2,177
Ramsey	88,137	93,063	96,164	98,977	100,902	493	591	385	511
Scott	65,708	70,907	77,944	81,740	90,250	520	1,083	1,702	982
Washington	86,841	96,252	112,002	120,327	128,616	941	2,408	1,658	1,671
Twin Cities (7 County)	776,973	857,002	928,581	971,672	1,020,823	8,003	11,467	4,309	9,754

Source: Metropolitan Council

The above data illustrates an annual absorption of 9,754 acres per year from 1980 to 2005. At this rate there is a 12-year supply of land within the MUSA boundary for future growth. As shown in the previous map, the developing areas are generally located on the fringe of the Twin Cities along transportation corridors.

## ***TWIN CITIES MARKET AREA***

### ***Population Trends***

The table below shows population trends for the 7- and 13-county areas for 1990 and 2000, as well as estimates for 2005 and 2007. The Twin Cities was ranked 15<sup>th</sup> in total population compared to other United States metropolitan areas in 2000.

<b>Population Trends</b>								
<b>County</b>	<b>1990</b>	<b>2000</b>	<b>2005</b>	<b>2007</b>	<b>Change per Year</b>			
					<b>'90-'00</b>	<b>'00-'07</b>	<b>'05-'07</b>	<b>'90-'07</b>
Anoka	243,641	298,084	326,393	331,246	5,444	4,737	2,427	5,153
Carver	47,915	70,205	85,204	88,384	2,229	2,597	1,590	2,381
Dakota	275,227	355,904	391,558	398,177	8,068	6,039	3,310	7,232
Hennepin	1,032,431	1,116,200	1,150,912	1,157,400	8,377	5,886	3,244	7,351
Ramsey	485,765	511,035	515,258	517,074	2,527	863	908	1,842
Scott	57,846	89,498	115,997	123,735	3,165	4,891	3,869	3,876
Washington	145,896	201,130	224,857	233,104	5,523	4,568	4,124	5,130
<b>Twin Cities (7-Cty)</b>	<b>2,288,721</b>	<b>2,642,056</b>	<b>2,810,179</b>	<b>2,849,120</b>	<b>35,334</b>	<b>29,581</b>	<b>19,471</b>	<b>32,965</b>
Chisago	30,521	41,101	49,417	50,433	1,058	1,333	508	1,171
Isanti	25,920	31,287	37,699	38,881	537	1,085	591	762
Pierce, WI	32,765	36,804	39,447	39,373	404	367	(37)	389
Sherburne	41,945	64,417	82,246	86,308	2,247	3,127	2,031	2,610
St. Croix, WI	50,254	63,155	76,265	80,015	1,290	2,409	1,875	1,751
Wright	68,710	89,986	110,836	116,780	2,128	3,828	2,972	2,828
<b>Twin Cities (13-Cty)</b>	<b>2,538,836</b>	<b>2,968,806</b>	<b>3,206,089</b>	<b>3,260,910</b>	<b>42,997</b>	<b>41,729</b>	<b>27,411</b>	<b>42,475</b>
<b>Minnesota</b>	<b>4,375,099</b>	<b>4,919,479</b>	<b>5,192,122</b>	<b>5,263,610</b>	<b>54,438</b>	<b>49,162</b>	<b>35,744</b>	<b>52,265</b>

*Source: U.S. Census Bureau and the MN and WI State Demographic Centers*

As indicated above, the average number of people being added per year to the Twin Cities has slowed from 2000 to 2007 compared to the rate experienced from 1990 to 2000. This rate has slowed even more in the 7-County area compared to the 13-County area. The outlying suburbs generally have more vacant, undeveloped land for the construction of new, single-family homes, thus it has captured a greater percentage of the overall growth. The counties that are located in Minnesota from the 13-County Twin Cities Market Area have captured 77% of the population growth that has occurred in the entire state of Minnesota. This later fact is related to the 13-County area serving as the most significant employment center in Minnesota.

The projected growth rate from 2005 to 2035 is 31,208 residents per year in the 13-County area as presented on the next page. This is on the conservative side in light of historical population growth for the last 17 years averaging 42,475 residents per year.

The population growth rate in the future will be closely linked to the Twin Cities employment base and also the immigration policies set forth by the United States government. Employment is the most important demographic for an area as employment will attract and retain residents while driving demand for all types of real estate. Employment trends will now be discussed.



## TWIN CITIES MARKET AREA

Population Projections									
County						Change per Year			
	2005	2010	2015	2025	2035	'05-'10	'05-'15	'05-'25	'05-'35
Anoka	326,393	352,070	374,330	399,950	421,070	5,135	4,794	3,678	3,156
Carver	85,204	100,830	114,880	137,800	160,040	3,125	2,968	2,630	2,495
Dakota	391,558	414,100	437,500	473,650	491,600	4,508	4,594	4,105	3,335
Hennepin	1,150,912	1,149,270	1,165,830	1,188,230	1,192,780	(328)	1,492	1,866	1,396
Ramsey	515,258	494,700	491,830	487,820	479,080	(4,112)	(2,343)	(1,372)	(1,206)
Scott	115,997	154,520	186,830	243,060	299,640	7,705	7,083	6,353	6,121
Washington	224,857	240,980	257,760	284,330	308,360	3,225	3,290	2,974	2,783
<b>Twin Cities (7-Cty)</b>	<b>2,810,179</b>	<b>2,906,470</b>	<b>3,028,960</b>	<b>3,214,840</b>	<b>3,352,570</b>	<b>19,258</b>	<b>21,878</b>	<b>20,233</b>	<b>18,080</b>
Chisago	49,417	59,180	67,890	82,080	96,070	1,953	1,847	1,633	1,555
Isanti	37,699	45,080	51,750	62,930	74,280	1,476	1,405	1,262	1,219
Pierce, WI	39,447	41,695	44,306	49,608	54,094	450	486	508	488
Sherburne	82,246	101,570	119,050	147,600	175,400	3,865	3,680	3,268	3,105
St Croix, WI	76,265	87,123	99,965	125,736	148,043	2,172	2,370	2,474	2,393
Wright	110,836	136,130	159,650	200,350	241,860	5,059	4,881	4,476	4,367
<b>Twin Cities (13-Cty)</b>	<b>3,206,089</b>	<b>3,377,248</b>	<b>3,571,571</b>	<b>3,883,144</b>	<b>4,142,317</b>	<b>34,232</b>	<b>36,548</b>	<b>33,853</b>	<b>31,208</b>
<b>Minnesota</b>	<b>5,192,122</b>	<b>5,446,490</b>	<b>5,709,720</b>	<b>6,135,060</b>	<b>6,446,260</b>	<b>50,874</b>	<b>51,760</b>	<b>47,147</b>	<b>41,805</b>

Source: MN and WI State Demographic Centers

### Employment Trends

In general, the Twin Cities have become a technical/professional center. The concentration of research and technology firms in Minnesota is four times above the national average, with medical instrument technology as the leading industry. Other principal industries of the trade area include machinery, fabricated metal products, paper and allied products, printing and publishing, electronic products, and food products.

There are eighteen Fortune 500 companies headquartered in the Twin Cities (see table on next page). Some of these companies consist of well-known firms such as 3M, General Mills, Target, Best Buy, Northwest Airlines, and Medtronic. Privately owned companies such as Cargill (the U.S.'s largest privately owned company with 2007 revenues of \$88.2 billion), Carlson Companies, and Anderson Windows also have their corporate headquarters in the Twin Cities. Minneapolis is also the headquarters for the Ninth Federal Reserve District Bank. Additionally, the Twin Cities are one of the country's leading financial centers being home to Ameriprise (formally IDS and American Express Financial Services), TCF Bank, U.S. Bancorp, and one of two primary home mortgage processing centers for Wells Fargo in the United States.

No one manufacturer, or single industry, dominates the local economy. The area's two largest firms employ only about 3% of the total employment, and the 95 largest firm's together account for about 20% of total employment. Public organizations are the largest employers. The University of Minnesota is the largest public employer, with the federal and state governments ranked second and third, respectively. A breakdown of employment by industry for the 13-County area is presented on an upcoming page.

## TWIN CITIES MARKET AREA

Minnesota Fortune 500 Companies				
2007 Rank	2006 Rank	Company	Location (Headquarters)	2007 Revenue (Millions)
25	21	United Health Group	Minnetonka	\$75,431
31	33	Target	Minneapolis	\$63,367
62	117	Supervalu	Eden Prairie	\$37,406
66	72	Best Buy	Richfield	\$35,934
93	89	Travelers Cos.	St. Paul	\$26,017
100	97	3M	St. Paul	\$24,462
122	123	U S Bancorp	Minneapolis	\$20,308
145	166	Cenex Harvest States (CHS)	Inver Grove Heights	\$17,216
213	195	Northwest Airlines	Eagan	\$12,528
214	213	General Mills	Minneapolis	\$12,442
217	222	Medtronic	Minneapolis	\$12,299
260	251	Xcel Energy	Minneapolis	\$10,034
294	329	Land O' Lakes	Arden Hills	\$8,925
296	297	Ameriprise Financial	Minneapolis	\$8,909
341	349	C H Robinson Worldwide	Eden Prairie	\$7,316
390	403	Hormel Foods	Austin <sup>(1)</sup>	\$6,193
398	370	Thrivent Financial for Lutherans	Minneapolis	\$6,133
422	427	Mosaic	Plymouth	\$5,774
438	457	Ecolab	St. Paul	\$5,470

<sup>(1)</sup> Located outside of the 7-County Twin Cities Metro Area

Source: *Fortune*

The table on the next page shows employment and unemployment trends for the 7- and 13-County area. This data shows on average 13,161 jobs were added per year to the 13-County area from 1990 to 2007, which represents nearly 70% of all the jobs added in Minnesota during this same time frame. The vast majority of this growth occurred from 1990 to 2000. The unemployment rate then grew steadily between 2000 and mid-2003. This was related to the overall slowdown in the United States economy dating back to a period that many economists believe started in early 2001 and was amplified by the September 11, 2001 terrorist attacks. This slow down in the economy was short-lived as there were indications that the economy, as a whole, began to grow again by late 2001/early 2002. In fact, the unemployment rate in 2005 was back to similar 2001 levels prior to the recession. However, a large number of workers retired, which contributed to the improved unemployment rate.

From 2006 to 2007, there were 7,465 jobs added to the 13-County area while the entire state of Minnesota experienced a loss of 25,560 jobs. The average annual unemployment rate in the Twin Cities area grew to 4.3% in 2007, up from the 2006 level of 3.7%.

As of November 2008, the 13-County area has lost 25,903 jobs for the year while the loss of jobs in the entire state of Minnesota was 26,353 for this same period, thus the majority of the job loss occurred in the Twin Cities in 2008. Of this job loss, roughly 10,500 jobs were lost in November 2008 for Minnesota compared to 533,000 jobs lost in the entire United States for the month. As a result, the unemployment rate has grown to 5.8% as of November 2008 for the 13-County area. The current state of the economy/employment market is discussed on an upcoming page.

## TWIN CITIES MARKET AREA

Employment Trends (by place of residence)								
County	1990	2000	2006	2007	2008 Nov.	Change Per Year		
					YTD	'90-'07	'06-'07	'07-'08
Anoka	138,098	174,185	184,295	185,111	182,388	1,741	816	(2,723)
Carver	27,136	40,023	47,957	48,170	47,461	779	213	(709)
Dakota	159,828	211,589	222,538	223,523	220,235	2,359	985	(3,288)
Hennepin	590,188	647,710	630,854	633,645	624,324	1,610	2,791	(9,321)
Ramsey	260,231	278,034	260,158	261,309	257,465	40	1,151	(3,844)
Scott	31,929	52,848	69,824	70,133	69,101	1,415	309	(1,032)
Washington	79,691	115,006	123,871	124,419	122,589	1,657	548	(1,830)
<b>Twin Cities (7-Cty)</b>	<b>1,287,101</b>	<b>1,519,395</b>	<b>1,539,497</b>	<b>1,546,310</b>	<b>1,523,563</b>	<b>9,600</b>	<b>6,813</b>	<b>(22,747)</b>
<b>Workforce Participation <sup>(1)</sup></b>	<b>56%</b>	<b>58%</b>	<b>54%</b>	<b>54%</b>	<b>n/a</b>			
Chisago	14,524	22,364	26,278	26,394	26,006	440	116	(388)
Isanti	12,399	17,306	20,538	20,629	20,325	305	91	(304)
Pierce, WI	17,548	22,330	22,932	23,324	22,486	214	392	(838)
Sherburne	21,252	36,699	46,331	46,536	45,852	936	205	(684)
St. Croix, WI	26,326	37,145	44,408	43,981	43,961	654	(427)	(20)
Wright	35,312	50,841	62,362	62,637	61,716	1,012	275	(921)
<b>Twin Cities (13-Cty)</b>	<b>1,414,463</b>	<b>1,706,081</b>	<b>1,762,347</b>	<b>1,769,812</b>	<b>1,743,909</b>	<b>13,161</b>	<b>7,465</b>	<b>(25,903)</b>
<b>Workforce Participation <sup>(1)</sup></b>	<b>56%</b>	<b>57%</b>	<b>54%</b>	<b>54%</b>	<b>n/a</b>			
<b>Minnesota</b>	<b>2,275,853</b>	<b>2,720,492</b>	<b>2,822,297</b>	<b>2,796,737</b>	<b>2,770,384</b>	<b>19,292</b>	<b>(25,560)</b>	<b>(26,353)</b>
<b>Workforce Participation <sup>(1)</sup></b>	<b>52%</b>	<b>55%</b>	<b>54%</b>	<b>53%</b>	<b>n/a</b>			

(1) - Employment divided by the population

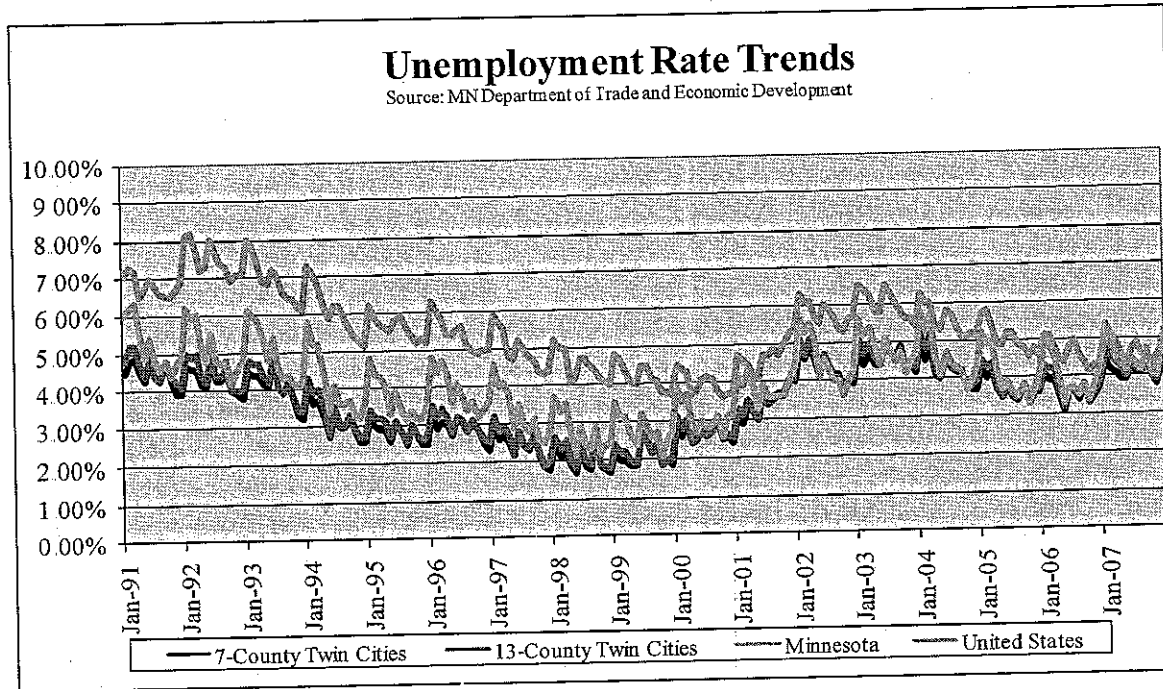
Source: MN and WI Departments of Trade & Economic Development

Unemployment Rate (Not Seasonally Adjusted)										
	Average									
	1990	2000	2001	2002	2003	2004	2005	2006	2007	Nov-08
Twin Cities (7-Cty)	4.0%	2.7%	3.5%	4.3%	4.6%	4.3%	3.7%	3.6%	4.1%	5.7%
Twin Cities (13-Cty)	4.1%	2.7%	3.5%	4.4%	4.7%	4.3%	3.8%	3.7%	4.3%	5.8%
Minnesota	4.8%	3.1%	3.8%	4.5%	4.8%	4.6%	4.1%	4.0%	4.6%	6.4%
United States	5.6%	4.0%	4.7%	5.8%	6.0%	5.6%	5.1%	4.6%	4.6%	6.5%

Source: MN Department of Trade & Economic Development

A graph illustrating the above unemployment trends is presented on the next page. The rise in unemployment is related to a global recession that is occurring. Although many market participants believed the United States was in a recession since early to mid 2008, it was recently confirmed the recession technically began in December 2007 - i.e. the beginning of two consecutive quarters of declining Gross Domestic Product (GDP). The duration of the current recession is uncertain, but many economic experts believe it will last through 2009 or longer. The fact that most of the industrialized world is experiencing a recession also suggests the recovery will take more than a year. One of first steps the U.S. government has taken is to restore the credit markets that essentially collapsed in what has been termed the "Global Financial Crisis of 2008." The government actions will be discussed on an upcoming page. This financial crisis began with a rise in residential mortgage delinquencies and foreclosures in 2007. This had a major adverse impact on banks that had to record large write-offs negatively impacting their asset to liability ratios and their ability to issue new debt. As a result, some of the well-known investment and commercial banks around the world were forced into bankruptcy.

## TWIN CITIES MARKET AREA



With the bankruptcy of large investment banks, a declining GDP, and a large degree of lost confidence/uncertainty in the market, the stock market suffered large setbacks in 2008 with the Dow Jones Industrial Average declining over 30% from its year-end 2007 level. Furthermore, as of December 2008 the Consumer Confidence Index was at 38.0, an all-time low since the index was created in 1967 and very low compared to the benchmark of 100 established in 1985 (an average year with no peaks or troughs). All of the above factors have led to job losses as companies attempt to eliminate expenses during this downtime. The employment loss as of November 2008 was previously discussed and it is also illustrated in the table on the next page by industry type.

The industries impacted the most in the 13-county area have been professional and business services, manufacturing, construction, and retail trade with a combined loss of over 34,000 jobs in the past 12 months. Job gains were posted in education/health care, government, and financial activities industries that combined accounted for almost 20,000 additional jobs.

With the collapse of the credit markets, it has become difficult for individuals and businesses to acquire loans. From a commercial real estate perspective, the credit crisis has essentially eliminated the Commercial Mortgage Backed Securities (CMBS) market. CMBS are investment vehicles that pool commercial mortgages and issue bonds backed by individual loans. The CMBS market comprised a significant share of the commercial loans made from 2003 to 2007. The CMBS market reacted to the credit crisis by increasing lending spreads to account for increased risk. With increased costs of debt to borrowers and limited demand for the bonds, the CMBS market essentially exited the market by the end of 2007. For example, in the first and second half of 2007 approximately \$114 billion and \$116 billion, respectively, of new debt was issued in the CMBS market. For the entire year of 2008, only \$12 billion of new debt was issued in the CMBS market.

# TWIN CITIES MARKET AREA

Employment Trends by Industry (excluding Agric.) for the 13-County Twin Cities Area									
Industry	Average Annual Employment							'90-'07 per year	Nov. '07- Nov. '08
	1990	2000	2006	2007	Nov. 2007	Nov. 2008			
Nat. Resources & Const. & Mining	50,400	78,300	82,379	76,795	77,225	69,157		1,553	(5,584)
Manufacturing	216,100	237,100	203,962	201,328	200,218	191,418		(869)	(2,634)
<b>Total Goods-Producing</b>	<b>266,500</b>	<b>315,400</b>	<b>286,341</b>	<b>278,123</b>	<b>277,443</b>	<b>260,575</b>		<b>684</b>	<b>(8,218)</b>
Wholesale Trade	70,500	85,300	87,098	87,352	87,097	85,860		991	254
Retail Trade	159,400	187,800	186,863	187,367	193,140	186,316		1,645	504
Transportation, Warehouse, and Utilities	63,400	75,200	65,087	65,408	67,082	64,314		118	321
Information	38,300	49,700	41,642	42,415	42,427	42,416		242	773
Financial Activities	102,800	132,700	142,316	141,464	140,630	143,563		2,274	(852)
Professional and Business Services	182,600	265,300	261,489	265,984	268,358	257,457		4,905	4,495
Educational and Health	140,900	186,700	237,622	251,009	257,007	263,920		6,477	13,387
Leisure and Hospitality	117,100	143,400	160,988	163,322	160,958	158,347		2,719	2,334
Other Services (Excl Gov)	57,900	72,300	76,143	76,032	76,055	76,099		1,067	(111)
Government	191,400	234,300	241,512	239,464	246,519	255,802		2,827	(2,048)
<b>Total Service-Providing</b>	<b>1,124,300</b>	<b>1,432,700</b>	<b>1,500,760</b>	<b>1,519,817</b>	<b>1,539,273</b>	<b>1,534,094</b>		<b>23,266</b>	<b>19,057</b>
<b>Total</b>	<b>1,390,800</b>	<b>1,748,100</b>	<b>1,787,101</b>	<b>1,797,940</b>	<b>1,816,716</b>	<b>1,794,669</b>		<b>23,949</b>	<b>10,839</b>
									<b>(22,047)</b>

Source: MN Department of Trade & Economic Development

## **TWIN CITIES MARKET AREA**

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In general, the debt markets have changed dramatically in the past year from a "priced-for-perfection to a priced-for-major correction mode," as stated in a publication by Real Estate Research Corporation (RERC). As a result of less credit available in the commercial real estate market in 2008 and the price adjustments being made by buyers to account for increased risk, there was a steep decline in sales activity compared to the prior years.

As stated on a previous page, the U.S. Government has taken action in an attempt to restore the credit markets and stimulate the economy. Under the Bush administration, the *Troubled Assets Relief Program (TARP)* was formed in October 2008 to purchase or insure assets and equity from financial institutions. The following was taken from A CBO Report published by the Congressional Budget Office in January 2009:

*"TARP allows the United States Department of the Treasury to purchase or insure up to \$700 billion of "troubled" assets. Troubled assets are defined as (A) residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008, the purchase of which the Secretary determines promotes financial market stability; and (B) any other financial instrument that the Secretary, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability, but only upon transmittal of such determination, in writing, to the appropriate committees of Congress "*

The TARP program was authorized to spend up \$350 billion in October 2008 and the second installment of \$350 billion was recently approved in January 2009. An additional economic stimulus package requesting \$825 billion is currently being discussed by Congress. The initial package would include \$550 billion in investment and job creation measures and \$275 billion in tax cuts. The effectiveness of the TARP program is not yet known. However, given the government's most significant intervention in the capital markets since the Great Depression, there is a great deal of public sentiment something must be done to prevent a severe and prolonged downturn in the U.S. economy.

Projecting short-term economic results, such as employment, can be very subjective as the market generally acts in cycles versus a model showing growth occurring steadily over time. Given the short-term outlook for the economy, employment growth over the next year in the Twin Cities is very unlikely. Most experts are predicting more layoffs throughout 2009. The long-term employment outlook for the Twin Cities is still considered to be relatively good based on historical growth rates and a diversified work force.

## **TWIN CITIES MARKET AREA**

### **Household Income Trends**

Household income trends are another indication of the economic health of an area and are related to the previous employment trends discussion. This information is also very pertinent to the retail real estate market as retailers compete for the disposable household income. It is also important with regard to what a homeowner can afford when purchasing a home. The median household income in the 7- and 13-County Twin Cities was \$59,453 and \$64,552 in 2005, respectively. These income levels rank the Twin Cities third best among the MSA's in the United States. This data is illustrated in the table below. The data below also shows how income levels have steadily grown from 1980 to 2005.

Median Household Income							
	1980	1990	2000	2005	% Change per Year		
					'80-'90	'90-'00	'00-'05
Anoka County	\$39,201	\$40,076	\$57,754	\$61,634	0.2%	4.4%	1.3%
Carver County	\$34,303	\$39,188	\$65,540	\$72,998	1.4%	6.7%	2.3%
Dakota County	\$39,525	\$42,218	\$61,863	\$66,467	0.7%	4.7%	1.5%
Hennepin County	\$33,643	\$35,659	\$51,711	\$55,996	0.6%	4.5%	1.7%
Ramsey County	\$31,736	\$32,043	\$45,722	\$49,898	0.1%	4.3%	1.8%
Scott County	\$37,650	\$40,798	\$66,612	\$78,106	0.8%	6.3%	3.5%
Washington County	\$40,647	\$44,122	\$66,305	\$73,491	0.9%	5.0%	2.2%
<b>Twin Cities (7-Cty)</b>	<b>\$34,610</b>	<b>\$36,678</b>	<b>\$54,332</b>	<b>\$59,453</b>	<b>0.6%</b>	<b>4.8%</b>	<b>1.9%</b>
Chisago County	\$18,501	\$31,258	\$52,336	n/a	6.9%	6.7%	n/a
Isanti County	\$17,381	\$31,322	\$50,138	n/a	8.0%	6.0%	n/a
Pierce County, WI	\$16,746	\$30,588	\$49,630	n/a	8.3%	6.2%	n/a
Sherburne County	\$19,435	\$35,699	\$57,129	\$61,313	8.4%	6.0%	1.5%
St. Croix County, WI	\$19,506	\$36,747	\$55,480	\$65,999	8.8%	5.1%	3.8%
Wright County	\$18,645	\$33,470	\$54,432	\$59,615	8.0%	6.3%	1.9%
<b>Twin Cities (13-Cty)</b>	<b>\$28,225</b>	<b>\$36,399</b>	<b>\$56,512</b>	<b>\$64,552</b>	<b>2.9%</b>	<b>5.5%</b>	<b>2.8%</b>
Minnesota	\$17,761	\$30,909	\$47,111	\$52,024	7.4%	5.2%	2.1%
United States	\$16,841	\$30,056	\$41,994	\$46,242	7.8%	4.0%	2.0%

Source: US Census Bureau

### **Housing Trends**

Another indication of the economic health in an area is housing market trends. The table on the next page shows the housing unit trends for the 7- and 13-county areas for 1980, 1990, and 2000, as well as estimates for 2005 and 2007. The data includes households (occupied housing units) and vacant housing units for both single- and multi-family homes. This table shows that the average number of units added per year from 1980 to 2007 was 18,451 in the 13-County Twin Cities. This equated to an annual growth rate of 2.2% from 1980 to 2007. Thus, the housing unit growth outpaced the population growth rate of around 1.8% during the same time period. Part of this can be attributed to decreasing household sizes. The other part is related to over-building. The number of vacant housing units is presented on the next page. The vacancy rate was 3.9% in 2007 for the 13-County area, which is up from the 2.8% in 2000. The current vacancy rate is higher due to a spike in foreclosure activity that has occurred in the Twin Cities and most of the United States.

## TWIN CITIES MARKET AREA

Housing Units Trends									
County	1980	1990	2000	2005	2007	Average Units Added Per Year			
						'80-'90	'90-'00	'00-'07	'80-'07
Anoka	62,904	85,519	108,091	121,187	124,569	2,262	2,257	2,354	2,284
Carver	12,585	17,449	24,883	31,686	33,361	486	743	1,211	769
Dakota	66,872	102,707	133,750	151,318	154,960	3,584	3,104	3,030	3,263
Hennepin	379,503	443,583	468,824	492,083	499,481	6,408	2,524	4,380	4,444
Ramsey	176,995	201,016	206,448	213,126	214,280	2,402	543	1,119	1,381
Scott	14,187	20,302	31,609	42,578	45,202	612	1,131	1,942	1,149
Washington	37,182	51,648	73,635	84,554	88,614	1,447	2,199	2,140	1,905
<b>Twin Cities (7-Cty)</b>	<b>750,228</b>	<b>922,224</b>	<b>1,047,240</b>	<b>1,136,532</b>	<b>1,160,467</b>	<b>17,200</b>	<b>12,502</b>	<b>16,175</b>	<b>15,194</b>
Chisago	9,561	11,946	15,533	18,692	19,224	239	359	527	358
Isanti	8,372	9,693	12,062	14,871	15,725	132	237	523	272
Pierce, WI	10,354	11,536	13,493	15,248	15,587	118	196	299	194
Sherburne	10,338	14,964	22,827	29,896	31,647	463	786	1,260	789
St. Croix, WI	14,924	18,519	24,265	31,140	33,169	360	575	1,272	676
Wright	21,795	26,353	34,355	44,673	47,924	456	800	1,938	968
<b>Twin Cities (13-Cty)</b>	<b>825,572</b>	<b>1,015,235</b>	<b>1,169,775</b>	<b>1,291,052</b>	<b>1,323,743</b>	<b>18,966</b>	<b>15,454</b>	<b>21,995</b>	<b>18,451</b>
<b>Minnesota</b>	<b>1,612,960</b>	<b>1,848,455</b>	<b>2,065,946</b>	<b>2,252,022</b>	<b>2,304,467</b>	<b>23,550</b>	<b>21,749</b>	<b>34,074</b>	<b>25,611</b>

Source: U.S. Census Bureau and the MN and WI State Demographic Centers

Vacant Housing Units Trends					
County	1980	1990	2000	2005	2007
Anoka	2,188	3,082	1,663	4,744	4,596
Carver	574	848	527	944	1,632
Dakota	2,785	4,414	2,599	6,436	4,665
Hennepin	13,967	24,523	12,695	29,289	17,181
Ramsey	6,490	10,516	5,212	14,387	6,602
Scott	686	935	917	991	1,239
Washington	2,181	2,402	2,173	4,660	2,982
<b>Twin Cities (7-Cty)</b>	<b>28,871</b>	<b>46,720</b>	<b>25,786</b>	<b>61,451</b>	<b>38,897</b>
Chisago	1,215	1,395	1,079	1,322	1,368
Isanti	892	882	826	1,010	1,309
Pierce, WI	782	525	478	481	881
Sherburne	1,365	1,321	1,246	1,936	2,104
St. Croix, WI	763	881	855	1,761	2,259
Wright	3,371	3,340	2,890	3,684	5,088
<b>Twin Cities (13-Cty)</b>	<b>37,259</b>	<b>55,064</b>	<b>33,160</b>	<b>71,645</b>	<b>51,906</b>
<b>Minnesota</b>	<b>172,029</b>	<b>200,602</b>	<b>170,819</b>	<b>212,316</b>	<b>223,590</b>

Source: U.S. Census Bureau and the MN and WI State Demographic Centers



## ***TWIN CITIES MARKET AREA***

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Building permit data is presented in the table on the next page. In 2007, there were 7,613 single-family residential building permits issued in the Twin Cities. This represents a -62.6% decline from the peak of the market that occurred in 2003 when 20,378 single-family permits were issued. Year to date data for 2008 through November indicates 4,007 single-family permits have been issued, an even further decline from 2007 levels. In most Counties comprising the Twin Cities market area, building permit activity has decreased in every year since peaking in 2003. The sharp decrease in single-family building permits is also a trend that is seen throughout the United States. Condominium units are included as multi-family units, and it should be noted there has been very little new construction activity of multi-family rental properties over the past six years due to rents levels not supporting the construction cost in most areas.

Suburban communities on the fringe of the 7-County TCMA where vacant developable land is still available have captured the majority of growth during this expansion period. The cities of Woodbury, Brooklyn Park, Blaine, Lakeville, Maple Grove, and Hugo were some of the leaders in single-family permits over the past few years.

The table on the next page compares residential permits issued from 1996 through 2007 for the 13-county Twin Cities. In addition, year-to-date data for 2008 is also reported.

The results of the overbuilding and a slowing housing market are also evident by studying sale prices of homes. The Minneapolis Area Association of Realtors is the best source of housing value information since local realtor's process most housing sales through the Multiple Listing Service (MLS). The statistical table on the upcoming page presents area home sales data for the period 1980 through 2007 including sales volume and average sale prices. A preliminary estimate for 2008 homes values is also presented based on data compiled using the MLS database. The analysis of this data indicates the following:

1. The 105,044 residential listings in 2007 resulted in closed sales of 40,055 homes. This is a 38.13% sale to list ratio, significantly below that of the annual average sales to list ratio of 54.45% from 1980 through 2007. The declining sales to list ratio since 2004 is an indication that the area's housing market began cooling off following a very successful period that began in 1997 when the Twin Cities first double-digit appreciation level was reported. The total number of closed sales in 2007 of 40,055 homes was also the lowest level reported since 1993.
2. The inventory of listings in 2007 was 105,044 homes. This is consistent with 2006 which had 108,022 homes listed. However, the number of annual listings had steadily increased since 1999 when a total of 57,573 homes were listed for sale. The current level of listings is related to the growing number of vacant housing units in the Twin Cities. It is also an indication that overbuilding occurred.
3. The average sale price of a home in the Twin Cities decreased in 2007 by (1.33%) to \$274,767 from 2006. This is the first annual decrease reported since 1988. The Twin Cities housing market is in a correction mode due to overbuilding and a period of rapidly appreciating values fueled by low interest rates and sub-prime loans. Although low interest rates are still prevalent, the availability of sub-prime loans has essentially disappeared and the amount of foreclosure activity is increasing as a result.

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Building Permits Issued by Year																
County	Single Family & Townhouse												Permits Issued			
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	YTD 2008	'96-'07	per year	
Anoka	1,989	1,883	2,548	2,478	1,986	2,081	2,373	2,856	2,958	2,212	1,427	937	540	25,728	2,339	
Carver	710	755	969	823	900	849	1,097	966	946	845	599	570	216	10,029	912	
Dakota	2,289	2,239	2,495	2,536	2,383	2,274	2,278	2,722	2,189	1,529	1,250	807	412	25,403	2,309	
Hennepin	2,648	2,337	2,768	3,289	2,706	2,730	2,677	3,074	2,682	2,330	2,255	1,376	881	31,753	2,887	
Ramsey	812	608	575	507	517	566	538	471	672	628	402	231	188	6,715	610	
Scott	1,240	1,061	1,653	1,796	1,976	1,772	1,722	2,282	1,986	1,551	1,019	596	314	18,968	1,724	
Washington	2,127	1,866	2,312	2,500	1,795	1,514	1,304	2,090	2,443	2,532	1,584	1,115	615	23,797	2,163	
<b>Twin Cities (7-Cty)</b>	<b>11,815</b>	<b>10,749</b>	<b>13,320</b>	<b>13,929</b>	<b>12,263</b>	<b>11,786</b>	<b>11,989</b>	<b>14,461</b>	<b>13,876</b>	<b>11,627</b>	<b>8,536</b>	<b>5,632</b>	<b>3,166</b>	<b>139,983</b>	<b>12,726</b>	
Chisago	555	425	555	681	635	683	606	595	488	349	259	142	50	6,023	548	
Isanti	266	176	210	289	326	663	529	467	600	483	249	170	33	4,461	406	
Pierce, WI	242	222	243	305	279	313	349	361	431	389	263	193	89	3,679	334	
Sherburne	974	835	1,001	1,152	1,108	1,027	1,075	1,520	1,501	1,163	722	333	108	12,519	1,138	
St. Croix, WI	423	428	575	642	706	1,004	1,176	1,194	1,208	924	561	359	217	9,417	856	
Wright	923	805	1,057	1,224	1,426	1,660	1,855	1,780	2,108	2,127	1,299	784	344	17,392	1,581	
<b>Twin Cities (13-Cty)</b>	<b>15,198</b>	<b>13,640</b>	<b>16,961</b>	<b>18,222</b>	<b>16,743</b>	<b>17,136</b>	<b>17,579</b>	<b>20,378</b>	<b>20,212</b>	<b>17,062</b>	<b>11,889</b>	<b>7,613</b>	<b>4,007</b>	<b>192,633</b>	<b>17,512</b>	
County	Multi-Family (2+ units)												Permits Issued			
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	YTD 2008	'96-'07	per year	
Anoka	192	102	162	262	64	313	158	74	422	129	44	122	40	2,044	186	
Carver	0	49	34	81	475	334	370	497	298	151	212	48	90	2,549	232	
Dakota	1,073	415	858	841	783	897	1,313	1,464	1,372	966	322	283	270	10,857	987	
Hennepin	1,014	1,359	1,282	1,963	2,218	1,856	4,208	2,562	2,474	2,640	2,258	1,221	618	25,673	2,334	
Ramsey	146	183	190	382	588	865	1,000	1,375	2,121	507	551	390	26	8,324	757	
Scott	87	38	130	379	226	234	347	421	101	179	124	157	0	2,423	220	
Washington	70	391	362	294	436	503	397	200	265	145	99	0	142	3,304	300	
<b>Twin Cities (7-Cty)</b>	<b>2,582</b>	<b>2,537</b>	<b>3,018</b>	<b>4,202</b>	<b>4,790</b>	<b>5,002</b>	<b>7,793</b>	<b>6,593</b>	<b>7,053</b>	<b>4,717</b>	<b>3,610</b>	<b>2,221</b>	<b>1,186</b>	<b>54,118</b>	<b>4,920</b>	
Chisago	27	27	29	14	24	4	4	69	6	0	0	0	32	236	21	
Isanti	0	0	166	5	4	144	8	0	114	62	131	8	0	642	58	
Pierce, WI	51	94	50	23	30	60	97	16	69	12	49	4	24	579	53	
Sherburne	15	12	91	2	179	102	34	76	36	5	0	0	0	552	50	
St. Croix, WI	242	230	447	428	393	437	132	331	139	117	23	31	24	2,974	270	
Wright	91	124	122	177	146	94	104	160	85	94	10	0	61	1,268	115	
<b>Twin Cities (13-Cty)</b>	<b>3,008</b>	<b>3,024</b>	<b>3,923</b>	<b>4,851</b>	<b>5,566</b>	<b>5,843</b>	<b>8,172</b>	<b>7,245</b>	<b>7,502</b>	<b>5,007</b>	<b>3,823</b>	<b>2,264</b>	<b>1,327</b>	<b>60,228</b>	<b>5,475</b>	

Source: US Census Bureau (2008 YTD data through November)

## TWIN CITIES MARKET AREA

Average Home Sale Prices in the 13-County Twin Cities Market Area						
Year	Listings Processed	Unit Sales	Sales to List Ratio	Residential Total Dollar Volume	Average Sale Price	Sale Price % Increase Over Prior Year
1980	37,018	18,351	49.57%	\$1,359,240,219	\$74,069	--
1981	35,580	15,675	44.06%	\$1,257,730,650	\$80,238	8.33%
1982	41,465	12,193	29.41%	\$1,003,337,584	\$82,288	2.55%
1983	50,794	15,914	31.33%	\$1,351,942,042	\$84,953	3.24%
1984	53,646	18,231	33.98%	\$1,549,762,617	\$85,007	0.06%
1985	51,492	21,335	41.43%	\$1,872,978,315	\$87,789	3.27%
1986	58,382	28,015	47.99%	\$2,530,286,785	\$90,319	2.88%
1987	55,422	25,772	46.50%	\$2,471,895,608	\$95,914	6.19%
1988	80,771	34,244	42.40%	\$3,218,148,388	\$93,977	-2.02%
1989	89,170	33,962	38.09%	\$3,282,698,996	\$96,658	2.85%
1990	78,548	34,496	43.92%	\$3,381,159,936	\$98,016	1.40%
1991	71,850	35,598	49.54%	\$3,538,512,396	\$99,402	1.41%
1992	72,730	41,944	57.67%	\$4,331,305,216	\$103,264	3.89%
1993	70,685	39,842	56.37%	\$4,285,764,098	\$107,569	4.17%
1994	63,369	42,454	66.99%	\$4,746,611,924	\$111,806	3.94%
1995	64,556	42,310	65.54%	\$4,952,512,430	\$117,053	4.69%
1996	73,433	46,949	63.93%	\$5,822,708,878	\$124,022	5.95%
1997	63,189	41,441	65.58%	\$5,680,939,485	\$137,085	10.53%
1998	64,280	47,836	74.42%	\$7,048,443,256	\$147,346	7.49%
1999	57,573	46,675	81.07%	\$7,620,953,975	\$163,277	10.81%
2000	59,618	48,208	80.86%	\$8,754,813,840	\$181,605	11.23%
2001	71,861	50,298	69.99%	\$10,217,334,528	\$203,136	11.86%
2002	73,940	52,231	70.64%	\$11,557,414,525	\$221,275	8.93%
2003	86,378	56,528	65.44%	\$13,478,875,488	\$238,446	7.76%
2004	97,737	58,233	59.58%	\$14,922,322,716	\$256,252	7.47%
2005	99,211	57,283	57.74%	\$15,610,877,726	\$272,522	6.35%
2006	108,022	47,906	44.35%	\$13,340,000,572	\$278,462	2.18%
2007	105,044	40,055	38.13%	\$11,005,792,185	\$274,767	-1.33%
2008	n/a	38,528	n/a	\$9,103,622,191	\$236,286	-14.00%
<b>Average</b>	<b>69,134</b>	<b>37,673</b>	<b>54.49%</b>	<b>Annual Compounded</b>		<b>4.23%</b>

Source: Minneapolis Area Association of Realtors with data from RMLS

The housing market has remained weak throughout 2008 and the preliminary results indicate home values are down 14% in the Twin Cities from 2007 levels. Many observers believe housing values could be stagnant to declining over the next 3+ years. When the overall economy begins to show signs of improvement, mortgage interest rates could potentially rise if inflation becomes a concern. Rising mortgage interest rates will put downward pressure on home values as it directly impacts their affordability. On a positive note, housing has is very affordable today with declining values and low interest rates. Although the Twin Cities is a highly desirable place to live, future employment trends and mortgage interest rates will have the greatest impact on the future housing market. Employment growth would attract/retain more residents to the area.

## **TWIN CITIES MARKET AREA**

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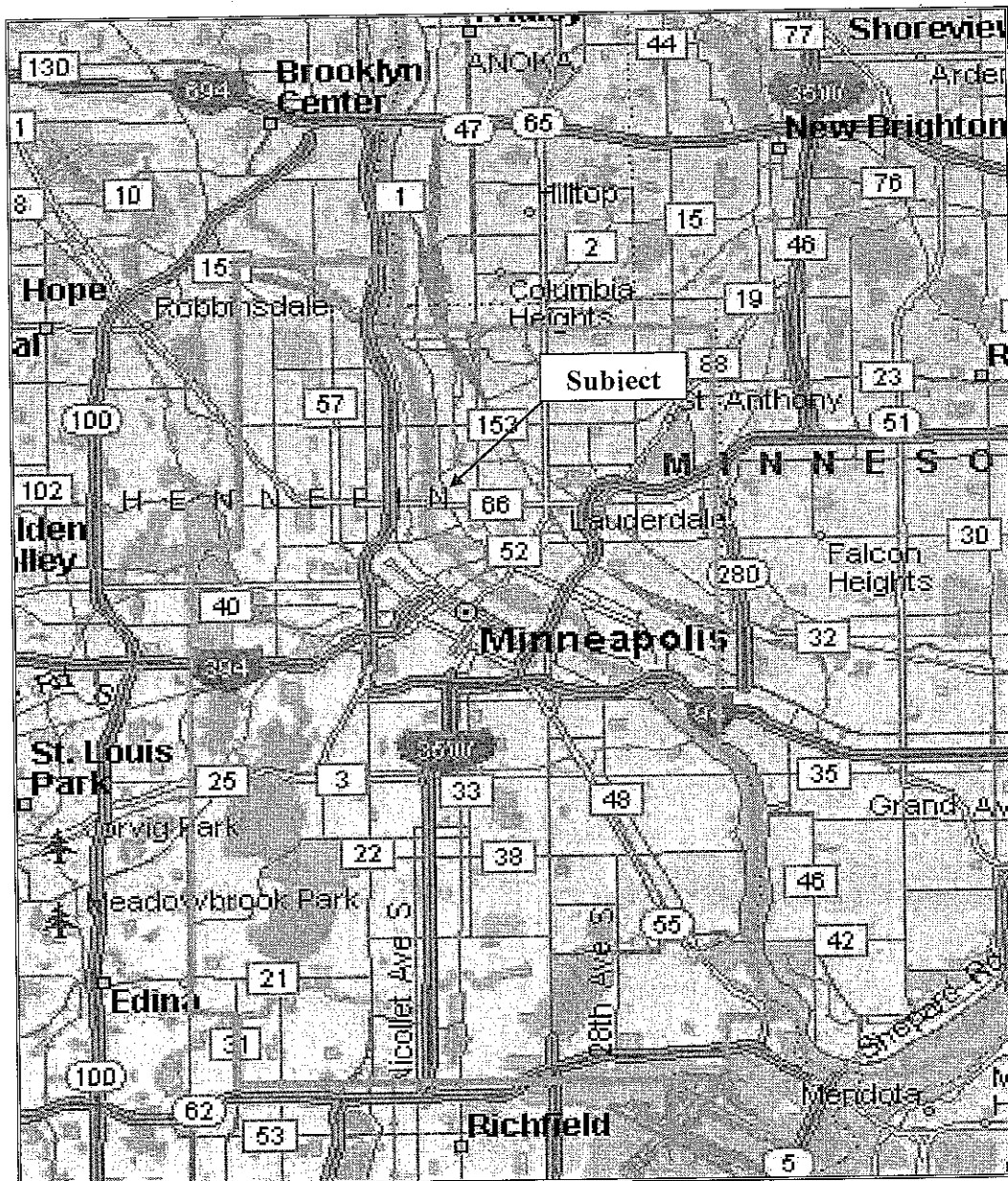
In summary, the single-family residential market is in a period of oversupply and declining prices. This decline is likely to last over a year and possibly into 2010 considering the supply of homes and the future, unavoidable increases in mortgage rates. The future success of this market will be closely linked to a growing population, which will be driven by an expanding employment base. Furthermore, the affordability of homes and the related construction costs and/or mortgage interest rates will also significantly influence the future of the residential market.

### **Twin Cities Market Area Conclusion**

The Twin Cities has historically experienced strong economic prosperity due largely to its well-educated work force, consistently low unemployment (and related high work force participation rate), and a diverse employer base. The short-term economic outlook is uncertain with local, national, and potentially even global concerns of a prolonged recession. The duration of a recession is very difficult to project as outside influences can shorten or lengthen the time period. The long-term economic outlook for the Twin Cities is considered to be good based on its historical success and the factors mentioned in the opening sentence of this paragraph.

Based on discussions with buyers, advisors to buyers, and asset managers, the long-term outlook for all real estate types in the Twin Cities area is generally considered to be good. Most cite the region's characteristics discussed in the above paragraph. The short-term outlook for all real estate types is not as positive, and market participants are being more cautious moving forward. This is related to the credit concerns in the financial markets and the current recession. If employment levels significantly decrease further in 2009 or longer, the real estate markets will suffer setbacks. The subject property is improved with an office building. The real estate fundamentals for office buildings in the Twin Cities and the subject's submarket will be discussed in the *Highest and Best Use* section of the report.

The City of Minneapolis is the largest municipality in the state and has the largest Downtown in the five state area. It contains 57 square miles and is located in the east portion of Hennepin County along the Mississippi River. The City of Minneapolis is bordered by Brooklyn Center, Fridley, and Columbia Heights to the north, St. Anthony, Roseville, Lauderdale, and St. Paul to the east, Richfield to the south, and Edina, St. Louis Park, Golden Valley, and Robbinsdale to the west. A map is offered below:



Located along the Mississippi River in eastern Hennepin County, Minneapolis was founded in the late 1840's because of its proximity to the Falls of St. Anthony – a short steep drop of the Mississippi River that provided an abundance of waterpower. Capitalizing on this power source, enterprising industrialists and businessmen turned Minneapolis into the flour-milling center of the country by the end of the century.

## **MINNEAPOLIS DESCRIPTION**

Growing from this industrial base on the western shoreline of the Mississippi, Minneapolis not only expanded rapidly to the west, but also absorbed the original village of St. Anthony on the eastern shoreline.

Minneapolis has excellent accessibility to the remainder of the greater metropolitan area, the rest of Minnesota and the entire Midwest region. Major roads leading to and from the city consist of:

- The north/south running Interstate 35W
- The northwest/southeast oriented I-94 traveling roughly parallel with the Mississippi River through the north part of Minneapolis and connecting easterly to St. Paul
- Interstate 394 extending west of Downtown to the suburbs of Minnetonka, Plymouth, Golden Valley, St. Louis Park, and Wayzata
- State Highway 55 leading west and southeast from Minneapolis
- State Highway 65 leading north from Minneapolis

The Minneapolis/St. Paul International Airport is adjacent to the southeast corner of the city and is a major hub for Northwest Airlines. Over 700 commercial flights a day originate from this airport.

### **Population Trends**

For Minneapolis, the decade of the 1990's brought the first population gain since its population peaked in the 1950's. Between 1990 and 2000, the population increased by 14,235 people or 1,424 residents per year on average. This compares to a slight loss in population from 1980 to 1990. The 2007 estimates indicate Minneapolis has continued to grow since 2000. Downtown Minneapolis has experienced a boom in residential development and has captured a large degree of this population growth. These population trends are presented in the table below:

<b>Population Trends</b>							
<b>City/County</b>					<b>Change Per Year</b>		
	<b>1980</b>	<b>1990</b>	<b>2000</b>	<b>2007</b>	<b>'80-'90</b>	<b>'90-'00</b>	<b>'00-'07</b>
<b>Minneapolis</b>	<b>370,951</b>	<b>368,383</b>	<b>382,618</b>	<b>388,020</b>	<b>(257)</b>	<b>1,424</b>	<b>772</b>
<b>St. Paul</b>	<b>270,230</b>	<b>272,235</b>	<b>286,840</b>	<b>287,669</b>	<b>201</b>	<b>1,461</b>	<b>118</b>
<b>Total</b>	<b>641,181</b>	<b>640,618</b>	<b>669,458</b>	<b>675,689</b>	<b>(56)</b>	<b>2,884</b>	<b>890</b>

*Source: U.S. Census Bureau and the MN State Demographic Center*

The long-term outlook for the City of Minneapolis is for modest growth over the next 5 to 10 years. Due to the significant slowdown in the housing market discussed in the prior section of report, a boom of new construction is not anticipated for at least another three years. Redevelopment that does occur will generally replace low-density housing sites with higher-density housing projects creating additional population growth.

## MINNEAPOLIS DESCRIPTION

### Household Trends

The 2007 estimates indicate 167,367 households within the city or a decrease of 1,239 households since 2000. The decrease in households coupled with an increasing population indicated the average household size is growing as shown below. The future economic results will influence the number of households and household size moving forward. In general, more families will be living under the same roof if job losses worsen in 2009.

Household Trends							
City/County					Change Per Year		
	1980	1990	2000	2007	'80-'90	'90-'00	'00-'07
Minneapolis	168,828	172,666	168,606	167,367	384	(406)	(177)
St. Paul	106,223	110,249	112,109	114,409	403	186	329
Total	275,051	282,915	280,715	281,776	786	(220)	152
Average Household Size (Population divided by number of households)							
Minneapolis	2.20	2.13	2.27	2.32			

Source: U.S. Census Bureau and the MN State Demographic Center

### Employment Trends

Minneapolis is the economic hub of the Twin Cities metro area. From the mid-1970's onward, city leaders have focused on revitalizing Downtown Minneapolis, and this effort has been extremely successful. The Downtown area remains the largest concentrated area of office space in the Metro Area. Additionally, Minneapolis has the following:

- Downtown Minneapolis comprises 36% of the entire office market space in the Twin Cities
- The City has approximately 12% of the total industrial square footage in the Twin Cities is located in Minneapolis

The major employers in Minneapolis are presented on the next page. Employment statistics are generally accounted for by place of residence of the employee versus the location of the employer. Thus, it is difficult to quantify the specific number of jobs that are located in the City of Minneapolis. The employment trends discussed in the Twin Cities Market Area are also applicable for Minneapolis. A listing of the major employers in Minneapolis is presented on the next page.

## **MINNEAPOLIS DESCRIPTION**

<b>Minneapolis Major Employers</b>		
<b>Employer</b>	<b>Products/Services</b>	<b># of Employees</b>
University of Minnesota	Colleges, Universities, & Professional Schools	30,000
Target Corporation	Department Stores	25,734
Allina Health System	Outpatient Care Centers	22,105
Wells Fargo Bank, MN	Commercial Banking	20,175
Fairview Health Services	Outpatient Care Centers	18,500
Hennepin County	General Government Support	12,171
US Bankcorp	Commercial Banking	9,500
Ameriprise Financial Inc.	Financial Investment Activities	6,000
United Parcel Services	Postal Service	5,400
Xcel Energy, Inc.	Electric Power Generation	5,057
Honeywell ACS	Engineering Services	5,000
Qwest	Power & Communication Line Construction	4,390
Children's Hospitals and Clinics	General Medical & Surgical Hospitals	4,233
City of Minneapolis	General Government Support	3,945

*Source: Minnesota Department of Employment and Economic Development*

The existence of these well-established employers benefits the subject property by providing a diverse and growing employment base with little dependency on the fortunes of a few businesses for the economic well being of the city or the region. As such, the demand for the subject property is enhanced as the trend is for individuals to live closer to their employment.

### **Household Income Trends**

Typical of central cities across the nation, household income in Minneapolis is significantly less than that of the metro area in general. Because Minneapolis' housing stock is much older than that of the surrounding suburbs, the city attracts lower income households that cannot afford new housing. Median household income in 2000 was \$37,974 and \$38,774 in Minneapolis and St. Paul, respectively. This compares to \$51,711 in Hennepin County and \$63,536 in the 7-County area. The median household income data is presented in the table below:

<b>Median Household Income Trends</b>					
	1980	1990	2000	<b>% Change</b>	
				<b>'80-'90</b>	<b>'90-'00</b>
<b>Minneapolis</b>	<b>\$24,048</b>	<b>\$25,324</b>	<b>\$37,974</b>	<b>5.3%</b>	<b>50.0%</b>
<b>St. Paul</b>	<b>\$26,860</b>	<b>\$26,498</b>	<b>\$38,774</b>	<b>-1.3%</b>	<b>46.3%</b>
<b>Average</b>	<b>\$25,454</b>	<b>\$25,911</b>	<b>\$38,374</b>	<b>1.8%</b>	<b>48.1%</b>
<b>Hennepin County</b>	<b>\$33,643</b>	<b>\$35,659</b>	<b>\$51,711</b>	<b>6.0%</b>	<b>45.0%</b>
<b>Ramsey County</b>	<b>\$31,736</b>	<b>\$32,043</b>	<b>\$45,722</b>	<b>1.0%</b>	<b>42.7%</b>
<b>Twin Cities (7-Cty)</b>	<b>\$34,610</b>	<b>\$41,721</b>	<b>\$63,536</b>	<b>20.5%</b>	<b>52.3%</b>

*Source: US Census Bureau*

Although the above data shows a considerable difference in median household income between Minneapolis and Hennepin County, Minneapolis has affluent neighborhoods, especially in the western part of the City near the chain of lakes (Cedar Lake, Lake of the Isles, Lake Calhoun, Lake Harriet) that gives Minneapolis its nickname – City of Lakes.



## MINNEAPOLIS DESCRIPTION

### Area Housing Values

The Minneapolis Area Association of Realtors is the best source of housing value information since the local realtor's process most of the area wide housing sales through the Multiple Listing Service (MLS). Average home prices for Minneapolis and the thirteen-county metro area increased from 3.5% to 9.7% annually from 2000 to 2007. However, the housing market has "cooled off" since 2005 with negative appreciation occurring in some Minneapolis neighborhoods in 2006 and most of the neighborhoods in 2007 and shown in the table below. The housing values were also discussed in the Twin Cities Market Area Description section of the report and the factors contributing to the area wide slumping housing market are also pertinent to the decline in Minneapolis. The dramatic decline in the Camden, North, and Phillips neighborhoods is largely related to high concentration of home foreclosures (i.e. forced sales are occurring driving prices downward for all homes).

Average Home Sale Prices										
MLS Code	MLS District	2000	2001	2002	2003	2004	2005	2006	2007	% Change per Year '00-'07    '06-'07
300	Calhoun-Isles (Mpls)	\$296,188	\$351,333	\$373,148	\$408,461	\$370,656	\$372,068	\$402,585	\$377,476	3.5%    -6.2%
301	Camden (Mpls)	\$93,216	\$113,612	\$130,219	\$145,436	\$159,716	\$170,491	\$162,024	\$131,955	5.1%    -18.6%
302	Central (Mpls)	\$200,293	\$217,375	\$273,907	\$275,497	\$314,868	\$290,640	\$312,041	\$319,548	6.9%    2.4%
303	Longfellow (Mpls)	\$130,985	\$155,226	\$175,815	\$188,073	\$214,911	\$230,133	\$219,423	\$222,017	7.8%    1.2%
304	Nokomis (Mpls)	\$142,080	\$170,066	\$191,160	\$207,649	\$223,953	\$234,483	\$239,498	\$236,460	7.5%    -1.3%
305	North (Mpls)	\$78,102	\$99,441	\$122,340	\$142,153	\$167,074	\$166,173	\$154,151	\$102,359	3.9%    -33.6%
306	Northeast (Mpls)	\$128,335	\$148,796	\$168,894	\$187,518	\$200,452	\$209,454	\$214,526	\$199,442	6.5%    -7.0%
307	Phillips (Mpls)	\$87,570	\$117,363	\$130,063	\$147,269	\$168,620	\$181,357	\$211,006	\$167,278	9.7%    -20.7%
308	Powderhorn (Mpls)	\$105,359	\$134,277	\$159,232	\$163,632	\$180,765	\$192,626	\$182,697	\$168,729	7.0%    -7.6%
309	Southwest (Mpls)	\$219,038	\$246,128	\$271,354	\$301,059	\$314,957	\$334,398	\$351,592	\$366,684	7.6%    4.3%
310	University (Mpls)	\$146,243	\$181,312	\$197,087	\$216,047	\$237,979	\$252,909	\$259,010	\$257,249	8.4%    -0.7%
Twin Cities (13-County)		\$181,605	\$203,136	\$221,275	\$238,446	\$256,252	\$272,522	\$278,462	\$274,767	6.1%    -1.3%

Source: The Realtor

### Conclusion

The long-term outlook for the City of Minneapolis is considered good. Minneapolis is over 140 years old and faces some challenges, including an aging housing stock, an increased demand for services from an aging and less affluent population, and a limited supply of vacant land to spur new development.

The Downtown area remains a vital business, entertainment and cultural center. The Downtown market includes nearly 25 million square feet of office space. Entertainment venues include the Target Center and the Metrodome, home to the Vikings. Construction of a new baseball stadium for the Minnesota Twins is anticipated to be completed in 2010. The stadium will be located immediately west of the downtown core in the Warehouse District.

The construction of the Hiawatha Light Rail Transit Line (LRT) has spurred some development along the Hiawatha Corridor into Downtown Minneapolis. The future Central Corridor LRT line linking Minneapolis and St. Paul should spur further development in the City. The most significant obstacle facing new development is high construction costs that are generally not supported by rent levels or sale prices/absorption periods.

## **PART FIVE – ANALYSIS OF DATA AND CONCLUSIONS**

## **HIGHEST AND BEST USE ANALYSIS**

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The highest and best use of the subject real estate will be regarded in this report as:

*"The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability."*

This definition was taken from the The Dictionary of Real Estate Appraisal, Fourth Edition, published by the Appraisal Institute, copyright 2002.

As the definition implies, a highest and best use for the land "as vacant" and "as improved" (if the land is developed) is necessary. The highest and best use analysis identifies the most profitable use to which the real estate (vacant or improved) can be utilized in the current market. Thus, this analysis is a market-driven concept. The competitive forces found in the market shape the highest and best use of real estate.

In determining a highest and best use, four tests are addressed. These four tests include:

- 1) **LEGALLY PERMISSIBLE:** Private restrictions, zoning, building codes, historical district controls, and environment regulations, etc., need to be investigated to determine their impact on the potential use of the site.
- 2) **PHYSICALLY POSSIBLE:** Size, shape, area, terrain, utilities, accessibility, etc., need to be evaluated in terms of their affect on the overall utility of a given parcel.
- 3) **FINANCIALLY FEASIBLE:** Those uses that meet both physically possible and legally permissible criteria need to be further analyzed to determine if they can produce a positive return to the land and capital improvements. In this section an analysis of supply and demand and location are needed to identify those uses that are financially feasible as well as the use that is maximally productive.
- 4) **MAXIMALLY PRODUCTIVE:** This is the final test which concludes which financially feasible use will bring the highest value to the subject real estate "as vacant" and "as improved" with consideration given to the associated risk of the proposed or existing development.

These tests are typically considered in sequence, although the first two tests can be interchangeable. However, the first two tests, legal permissibility and physical possibility, must be applied prior to testing for financial feasibility and maximum production.

The highest and best use of the subject land 'As-Vacant' and the real estate 'As-Improved' are discussed in this section of the report. The 'as-vacant' analysis of the land identifies the most probable or optimum use of the land. The identification of optimum use provides the basis for valuing the subject land. These tests will now be applied to the subject parcel as if it were vacant and will then be applied to the subject as improved to determine the Highest and Best Use of the property.

## **HIGHEST AND BEST USE ANALYSIS**

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### **Highest and Best Use – As Vacant**

**LEGALLY PERMISSIBLE:** The highest and best use of most parcels of vacant land will usually conform to one of the legally permitted uses allowed by zoning. The subject land is located in a C-1, Neighborhood Commercial District. The purpose of this district is to provide a convenient shopping environment of small-scale retail sales and commercial services that are compatible with adjacent residential uses. In addition to commercial uses, residential uses, institutional and public uses, parking facilities, limited production and processing and public services and utilities are allowed.

**PHYSICALLY POSSIBLE:** The small size of the subject land at 22,800 square feet limits its development potential. The zoning district dictates the subject site is buildable on a stand-alone basis for most commercial uses and for up to two residential units. The adjoining commercial uses to the east and west dictate a single or two-family residential use would not be as probable.

Based on the above information, the physically possible and legally permissible uses on the site have been narrowed to a small commercial or office use.

**FINANCIALLY FEASIBLE/ MAXIMALLY PRODUCTIVE:** This test relates to the financial feasibility of the legally permitted and physically possible uses on the site. The highest and best use of the subject land is strongly influenced by the nearby properties (residential and commercial) and the proximity to the Grain Belt Brewery complex that has a large office user and several smaller arts/crafts users. Therefore, a commercial use of the subject land would be most appropriate such as a small office building or art showroom/shop. The office market will now be discussed to determine the financial feasibility of this use.

The table on the next page illustrates the office market conditions for investment properties in the Twin Cities area as published by NorthMarq Real Estate Services (formerly published by United Properties). The overall vacancy rate for the Twin Cities as of December 31<sup>st</sup>, 2008 is 15.9%, which is up slightly from the rate of 15.2% as of December 31<sup>st</sup>, 2007. The subject property is located in the Northeast sector of the Twin Cities office market. The Northeast sector had an overall vacancy rate of 14.6% as of December 31<sup>st</sup>, 2008, which is a slight improvement from a vacancy rate of 14.9% as of December 31<sup>st</sup>, 2007. When sublease space is included, the vacancy rate increases to 17.6% in the Northeast sector as of December 31<sup>st</sup>, 2008. Historical vacancy trends in the Northeast sector are presented in a graph on an upcoming page. It is anticipated vacancy rates will increase over the next year due to the current recession and the related job losses occurring as previously discussed.

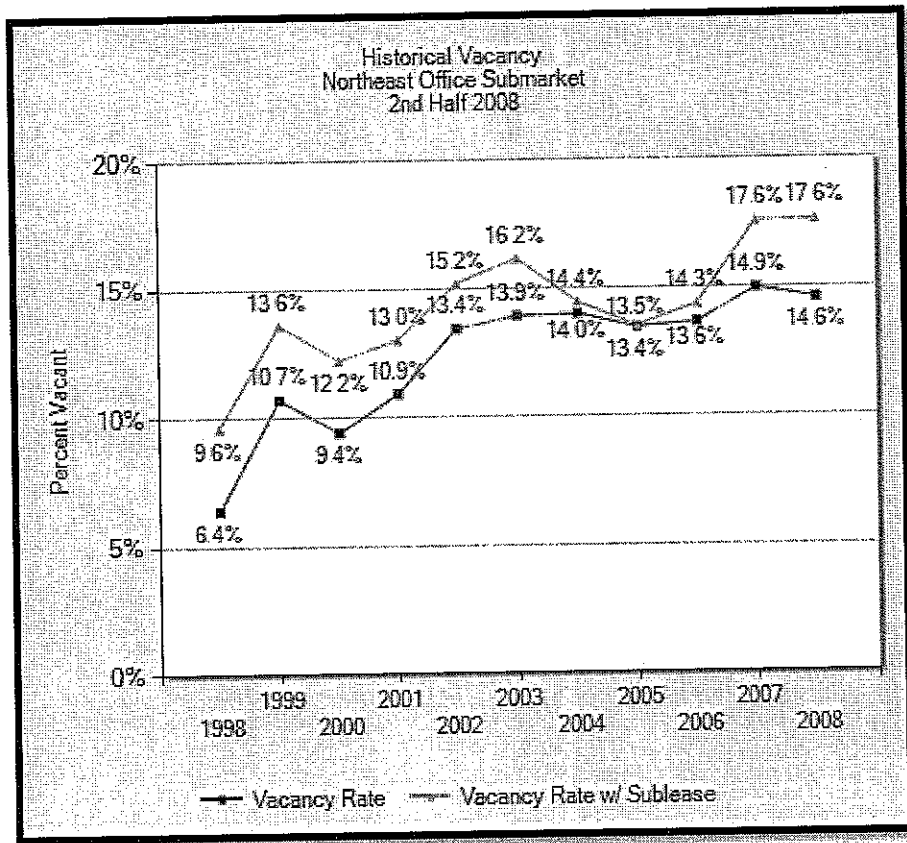
# HIGHEST AND BEST USE ANALYSIS

## Office Vacancy and Absorption as of December 31st, 2008

Submarket	Total # of Buildings	Rentable Area (SF)	Vacant Space (SF)	Percent Vacant	Percent Vacant w/ Sublease	Absorption (SF)			
						1st Half 2007	2nd Half 2007	1st Half 2008	2nd Half 2008
<b>Minneapolis CBD</b>									
Class A	23	14,459,723	1,664,706	11.5%	13.3%	47,193	(3,199)	149,146	98,821
Class B	49	8,099,618	1,698,173	21.0%	22.8%	180,440	55,976	(56,092)	(56,024)
Class C	38	3,106,719	613,343	19.7%	20.8%	4,744	(26,331)	17,400	(41,708)
<b>Total Minneapolis CBD</b>	<b>110</b>	<b>25,666,060</b>	<b>3,976,222</b>	<b>15.5%</b>	<b>17.2%</b>	<b>232,377</b>	<b>26,446</b>	<b>110,454</b>	<b>1,089</b>
<b>Northeast</b>									
Class A	26	2,032,059	330,525	14.5%	25.4%	(33,027)	35,029	3,126	(44,734)
Class B	77	4,693,784	599,651	14.3%	14.0%	84,915	87,702	65,015	11,758
Class C	20	1,173,121	219,456	18.4%	18.8%	(16,859)	(9,175)	(19,536)	16,174
<b>Total Northeast</b>	<b>123</b>	<b>7,898,964</b>	<b>1,149,632</b>	<b>14.6%</b>	<b>17.6%</b>	<b>35,029</b>	<b>113,556</b>	<b>48,605</b>	<b>(16,802)</b>
<b>Northwest</b>									
Class A	13	862,704	87,975	10.5%	12.2%	2,782	(3,741)	(1,666)	4,107
Class B	15	902,234	215,924	22.9%	26.1%	33,121	(46,543)	25,179	(34,596)
Class C	7	399,273	115,127	26.3%	29.1%	(9,302)	(2,609)	(5,074)	(4,964)
<b>Total Northwest</b>	<b>35</b>	<b>2,164,211</b>	<b>419,026</b>	<b>19.4%</b>	<b>21.1%</b>	<b>26,601</b>	<b>(52,893)</b>	<b>18,439</b>	<b>(35,453)</b>
<b>South/Airport</b>									
Class A	12	1,653,061	122,323	8.9%	15.0%	36,164	55,429	13,425	10,828
Class B	53	3,056,474	535,782	15.2%	21.9%	(36,522)	(6,855)	(37,198)	(28,431)
Class C	14	877,862	153,948	14.3%	17.5%	21,331	(3,473)	(11,011)	(17,180)
<b>Total South/Airport</b>	<b>79</b>	<b>5,587,397</b>	<b>812,053</b>	<b>14.5%</b>	<b>19.2%</b>	<b>20,973</b>	<b>45,101</b>	<b>(34,784)</b>	<b>(34,783)</b>
<b>Southwest</b>									
Class A	50	7,652,454	1,327,634	12.6%	21.1%	99,613	9,906	(1,120)	(27,968)
Class B	71	4,972,531	600,699	10.0%	15.4%	89,417	(8,240)	(28,665)	(97,673)
Class C	23	984,070	223,951	29.6%	23.8%	(6,001)	15,790	9,324	(4,879)
<b>Total Southwest</b>	<b>144</b>	<b>13,609,055</b>	<b>2,152,284</b>	<b>15.8%</b>	<b>19.2%</b>	<b>183,029</b>	<b>17,456</b>	<b>(20,461)</b>	<b>(130,520)</b>
<b>St. Paul CBD</b>									
Class A	7	2,393,690	357,209	15.8%	19.1%	(34,277)	33,923	46,449	(25,969)
Class B	29	4,741,861	1,528,024	29.8%	32.3%	(161,967)	(37,897)	(57,515)	(81,651)
Class C	12	601,655	107,470	20.9%	20.3%	(9,466)	16,093	2,460	5,522
<b>Total St. Paul CBD</b>	<b>48</b>	<b>7,737,206</b>	<b>1,992,703</b>	<b>25.8%</b>	<b>27.3%</b>	<b>(205,710)</b>	<b>12,119</b>	<b>(8,606)</b>	<b>(102,098)</b>
<b>West</b>									
Class A	29	4,456,037	298,784	6.5%	9.1%	105,883	53,599	45,282	(55,000)
Class B	54	3,578,479	454,963	14.6%	14.3%	(108,281)	116,358	28,622	32,110
Class C	13	590,653	110,711	14.1%	21.0%	(3,498)	(15,670)	(29,204)	34,379
<b>Total West</b>	<b>96</b>	<b>8,625,169</b>	<b>864,458</b>	<b>10.0%</b>	<b>12.1%</b>	<b>(5,896)</b>	<b>154,287</b>	<b>44,700</b>	<b>11,489</b>
<b>Twin Cities</b>									
Class A	160	33,509,728	4,189,156	12.5%	15.7%	224,331	180,946	254,642	(39,915)
Class B	348	30,044,981	5,633,216	18.7%	20.7%	81,123	160,501	(60,654)	(254,507)
Class C	127	7,733,353	1,544,006	20.0%	20.9%	(19,051)	(25,375)	(35,641)	(12,656)
<b>Total Twin Cities</b>	<b>635</b>	<b>71,288,062</b>	<b>11,366,378</b>	<b>15.9%</b>	<b>18.4%</b>	<b>286,403</b>	<b>316,072</b>	<b>158,347</b>	<b>(307,078)</b>

Source: Northmarq

## HIGHEST AND BEST USE ANALYSIS



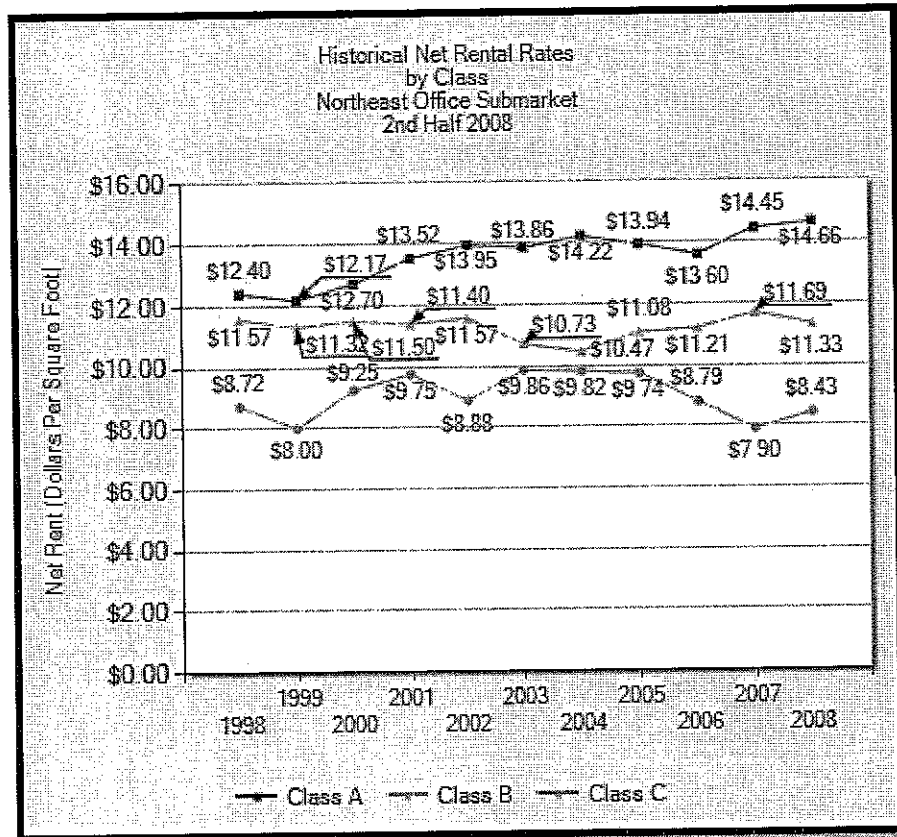
Source NorthMarq

Historical rental trends for the Northeast Sector office market are presented in the chart on the next page. It should be noted the rental rates are the quoted base asking rents. Within the base asking rents, there is typically a tenant improvement allowance that will reduce the effective net rent the landlord collects. Furthermore, given the potential for increasing vacancies related to the weakening economy, rental concessions could return in full force within the office market. Rent concessions often take the form of free rent and have the same effect of the tenant improvement allowance of reducing the effective net rent the landlord collects.

The following is the computed annual compounded rate of change for the respective office types in the Northeast office sector from 1998 to 2008. This data generally shows rents have been flat for the past 10 years. Class A office space has posted gains mainly because this product type comprises the majority of the new construction product that requires higher rent levels to be feasible.

- Class A +1.68%
- Class B -0.21%
- Class C -0.34%

## HIGHEST AND BEST USE ANALYSIS



Source: Northmarq

The office market in general has improved since last recession occurred in 2001/2002 as shown by improving vacancy rates and the increasing rental rates that occurred from 2003 to 2006. However, the office market conditions began to decline, specifically in 2008, with growing vacancy rates and stagnant to falling rent levels. Based on discussions with market participants, the above graph of rental rate trends would show a much weaker market in 2008 if tenant improvement allowances and concessions were factored in.

Based on this information, a speculative office development would not be financially feasible on the subject land if it were vacant. In order for an office development to be feasible, rent levels would have to be \$14.00 to \$16.00 per square foot of office space on a net rent basis in order to provide the desired return to an investor based on current construction costs (assumes wood frame construction). These rent levels are higher than what is currently being achieved at most Class B and Class C properties in the subject's sub-market. However, there are tenants willing to pay these higher rents to occupy new, custom designed space.

The next page shows a summary of planned and preliminary office buildings in the subject's northeast office market sector. It is very likely that all of these proposed projects will not begin construction until significant (50% to 75%) pre-leasing has occurred, and thus, the specific development time frame is unknown.

# HIGHEST AND BEST USE ANALYSIS

## Office - Northeast

### Planned

NAME	DEVELOPER	ADDRESS/INTERSECTION	CITY	SQ. FT.	NET RATE	PLANNED START DATE	COMMENTS
Gem Lake Office Park	NA	Gem Lake	Gem Lake	150,000	\$9.75	2Q 2009	2 Story
Century Business Plaza	NA	SEQ I-694 & MN 120	Oakdale	100,000	\$16-\$18	2Q 2009	6 Story Office Tower
The Oaks Office Center	Carlson Real Estate	7601 3rd Street N	Oakdale	156,000	n/a	3Q 2009	2 Story
The Oaks Office Center	Carlson Real Estate	7701 3rd Street N	Oakdale	80,640	n/a	2Q 2009	2 Story
Willow Marsh Building	NA	3574 Linden Ave	White Bear Lake	16,000	\$14.50	2Q 2009	
				<b>Planned Total: 502,640</b>			

### Preliminary

NAME	DEVELOPER	ADDRESS/INTERSECTION	CITY	SQ. FT.	NET RATE	COMMENTS
Traverse Business Center	Chesapeake Partners	NEQ I-35 & I-694	Arden Hills	500,000	n/a	Preleasing Required
Interstate Crossing	Chesapeake Partners	NEC I-35W & I-694	Arden Hills	500,000	\$16-\$18	Preleasing Required
Eagle Point Business Park Phase IV	United Properties	NEC I-94 & Inwood Avenue	Lake Elmo	50,000	\$17	Preleasing Required
Mahtomedi Executive Plaza	Welsh Companies	Stillwater Rd. & East Ave	Mahtomedi	21,142	\$13.50	Preleasing Required
White Bear Ave Bldg	Bervald Construction	White Bear Ave & Hwy 36	Maplewood	40,000	\$18	Preleasing Required
Oakdale Crossing	Griffin Companies	Hale Avenue North & 4th Street	Oakdale	17,653	\$14	Preleasing Required
Twin Lakes Redevelopment Area	McGough	NEQ Cleveland Ave & County Rd C	Roseville	300,000	n/a	Preleasing Required
Griggs-Midway West Building	Welsh Companies	548 Fairview Avenue N	St Paul	86,190	\$17	Preleasing Required
Tamarack Hills	Commercial Equity Partners	Tamarack and Bieleberg	Woodbury	40,000	n/a	Preleasing Required
Woodlane Professional Building	Welsh Companies	2056 Woodlane and Sycamore	Woodbury	22,220	\$15.50	Preleasing Required
				<b>Preliminary Total: 1,577,205</b>		

Northeast Total: 2,079,845

Source: Northmarq



## **HIGHEST AND BEST USE ANALYSIS**

The maximally productive use of the subject land if it were vacant and subdivided into a parcel containing roughly 22,800 square feet, is for an office development when it is supported by the market conditions in rents, costs, and occupancies. For an investor to consider an office building financially feasible, the proposed building would have to be significantly pre-leased. However, the site would also appeal to an owner-user who intended to occupy the building. In conclusion, the maximally productive use of the subject site, as vacant, is for a small office development. The probable buyer would be an owner/user.

### **Highest and Best Use – As Improved**

The subject property is improved with a historic building that was formerly part of the Grain Belt Brewery complex. The building contains a gross building area of 19,316 and a rentable area of 13,357 square feet. The building was formerly used for office space with large office suites in the west half of the building, and an open office area in the east half of the building. The property contains a basement area for storage in the west half of the building and a garden level area in the east half of the building that was a former pub room with a commercial kitchen. Below is a summary of some of the positive characteristics the subject building has:

1. Historic appeal associated with the Grain Belt Brewery complex.
2. Location in an area of Minneapolis that recently experienced a period of revitalization.
3. Barrel-vaulted, stained glass skylight ceiling over an open office area.
4. Attractive interior woodwork, terrazzo tile floors and antique brass light fixtures.
5. Central air-conditioning.
6. Sprinklered for fire protection.
7. Existing elevator service to all floors.
8. Two newer boilers.

Due to the subject's historical designation, the subject improvements cannot be demolished, thus redevelopment on the site was not considered. As such, a major negative associated with the subject property is that it does suffer from a high-degree of deferred maintenance. These costs were estimated to be roughly \$1,200,000 to \$1,600,000 as shown immediately following the *Highest and Best Use* section.

When estimating the deferred maintenance, consideration was also given to the reconfiguration of the existing building to better maximize its space. Significant changes to the overall floor plan were considered cost prohibitive and also most likely would not be allowed due to its historical designation. In addition, most market participants that have renovated older office buildings generally do not make significant changes to the overall floor plan. The renovations generally have consisted of addressing the deferred maintenance items (i.e. new roof, windows, floor covering, painting, tuck-pointing, updated mechanicals/electrical when needed, and new bathrooms). If allowed, the removal of some of the walls dividing the large office suites may be advantageous to create a larger open office area.

## ***HIGHEST AND BEST USE ANALYSIS***

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In addition to the deferred maintenance costs, the subject will only have 34 parking stalls for 13,357 square feet of rentable area, or 1 space per 393 square feet. More typical parking ratios would be 1 space per 250 to 300 square feet. On this basis, the subject would require 45 to 53 parking spaces. The ability to secure parking in the immediate area is essential for the operations of the subject property as an office building.

The building would appeal to an owner/user in the market, as well as an investor. However, due to the smaller size and design of the building, it would likely achieve the highest price in the market from a buyer who intended to owner-occupy at least a portion of the building, possibly an entire floor, if not the entire building. Given the significant renovations costs, many investors would treat this facility as a Build-to-Suit project (i.e. no renovation costs or interior build-out would be completed until a tenant was in hand.) The latter scenario would attract speculative buyers, however, this type of buyer is not allowed via the City of Minneapolis RFP process that requires the winning bidder to immediately execute their development plan.

In conclusion, the ***Highest and Best Use, As-Improved*** is for the repair of the deferred maintenance items noted on the next page and to operate the building as a single-tenant office building. The most probable buyer would be an owner/user.

It should be noted that the current potential buyer, Space Unlimited, intends to renovate the subject building for an office/event center use.

## ***DEFERRED MAINTENANCE***

The following is an estimate of deferred maintenance costs based on the appraisers' physical inspection of the building, discussions with the current owner, review of the renovation cost estimates by United Properties, review of the renovation cost estimates by Kristi Oman at Space Unlimitd, and an analysis of segregated costs from the Marshall Valuation Service. It should be noted that a physical condition report identifying all deferred maintenance items and an associated detailed cost to repair was not provided. The table below shows the deferred maintenance costs estimated by the appraisers. The range in cost was provided as renovating existing buildings to the degree required for the subject presents a level of unknown risk. The largest unknown risk is the cost associated with the drainage repairs.

**Deferred Maintenance Items**

<b>Item</b>	<b>Estimated Cost Range</b>	<b>Estimated Cost</b>
Roof	\$120,000 to \$150,000	\$140,000
Windows (approx. 60 windows)	\$60,000 to \$80,000	\$70,000
Tuck-pointing/other exterior repairs including retaining walls, sidewalks, steps, new patio	\$250,000 to \$300,000	\$275,000
Flooring	\$40,000 to \$50,000	\$40,000
Interior Painting/Wall Repair/New Walls	\$150,000 to \$200,000	\$175,000
New bathrooms (fixtures only)	\$5,000 to \$10,000	\$10,000
Electrical/wiring (including networking/phone/fixtures)	\$100,000 to \$150,000	\$125,000
Plumbing	\$40,000 to \$60,000	\$50,000
Elevator	\$20,000 to \$40,000	\$30,000
Demolition	\$50,000 to \$60,000	\$55,000
Fire Protection	\$20,000 to \$30,000	\$25,000
Heating/Cooling System (HVAC)	\$80,000 to \$100,000	\$90,000
Site Utilities	\$15,000 to \$20,000	\$15,000
Miscellaneous/Soft Costs/Entrepreneurial Profit	\$250,000 to \$350,000	\$300,000
<b>Total</b>	<b>\$1,200,000 to \$1,600,000</b>	<b>\$1,400,000</b>
add: Asbestos Removal	\$200,000 to \$200,000	\$200,000
add: Drainage Repairs	\$100,000 to \$600,000	\$400,000
<b>Totals including Asbestos Removal and Drainage Repairs</b>	<b>\$1,500,000 to \$2,400,000</b>	<b>\$2,000,000</b>

For comparison purposes, the extraordinary costs of the asbestos removal and drainage repairs were accounted for separately. The total estimated cost, excluding asbestos removal and drainage repairs, of \$1,400,000 equates to \$104.82 per square foot of rentable area (RA). This amount is also the range of four renovation cost comparables that were reviewed. United Properties had a construction budget of roughly \$1,270,000 before factoring in tenant improvements of over \$500,000. The present building purchaser, Kristi Oman, had a renovation cost estimate of \$1,350,000 as presented on an upcoming page. In comparison to the replacement cost new estimates provided by Marshall Valuation Service in the table on the next page, the total renovation costs can be allocated as \$51.66 per square foot of RA being attributable to the building shell (roof, windows, exterior, and 50% of miscellaneous costs) and \$53.16 per square foot of RA being attributable to the interior build-out (the remaining items). This equates to 58% of replacement cost new for a building shell and 81% of the replacement cost new for the interior build-out. This exercise serves as an overall check on the deferred maintenance estimate and seems reasonable given the existing condition of the improvements, the comparable data reviewed, and the estimates by United Properties and Kristi Oman.

## ***DEFERRED MAINTENANCE***

### ***Marshall Valuation Service Analysis (excluding asbestos removal and drainage repairs)***

Replacement Cost New of a Good Class C Office Building	\$155.12	per sq. ft. of GBA
less: Replacement Cost New of Shell	(\$89.79)	per sq. ft. of GBA
Replacement Cost New of Interior Build-out	\$65.34	per sq. ft. of GBA
Deferred Maintenance (shell related)	\$51.66	per sq. ft. of Rentable Area
Deferred Maintenance (interior build-out related)	\$53.16	per sq. ft. of Rentable Area
Total Deferred Maintenance	\$104.82	per sq. ft. of Rentable Area
Deferred Maintenance (shell related)	58%	of shell RCN
Deferred Maintenance (interior build-out related)	81%	of interior build-out RCN
Deferred Maintenance (shell and interior build-out related)	68%	of total RCN

*Source: Marshall Valuation Service*

The asbestos removal costs were provided by Groundwater & Environmental Services, Inc. and are detailed on two upcoming pages. The drainage repair cost was estimated by Loucks Associates. This report is over 30 pages long with exhibits and has been retained in the appraisers' work file. A specific corrective plan was not proposed by Loucks Associates as additional studies were necessary. The report identified the following drainage problems:

- Perched Groundwater seeping into the building.
- Surface runoff from the site (and surrounding area) draining towards the building.
- Faulty roof gutters discharging at the building foundation and lack of wind well drainage.
- Storm sewer backup from downstream piping systems.

For purposes of this appraisal, the corrective measures for the drainage problem were assumed to include re-grading the surrounding vacant city-owned land, installing drain tile and/or french drains, and connecting the drain tile to the city storm sewer system. It may also be necessary to upgrade the city storm sewer system in the area, however this is not assumed necessary in this appraisal. Based on data provided by Loucks Associates, the cost to correct the drainage problem ranges from roughly \$100,000 to \$600,000 depending on the final plan for correcting the drainage problem. The proposed corrective plan suggested above is estimated to cost \$400,000. As part of this estimate, it is assumed the City of Minneapolis (the seller) will grant the necessary easements across the adjacent property which they own at no cost. This easement may be needed to effectively connect a drain tile system on the subject property to the city storm sewer system.



**Groundwater  
& Environmental Services, Inc.**

1285 Corporate Center Drive • Suite 120 • Eagan, Minnesota 55121 • (800) 735-1077 • Fax (651) 405-1036

February 2, 2007

Mr. Mike Williams  
Minneapolis Community Development Agency  
105 5th Avenue South, Suite 600  
Minneapolis, Minnesota 55401-2534

**RE: Asbestos Removal Cost Estimate  
Grain Belt Office Building  
1215 Marshall Avenue NE, Minneapolis, Minnesota**

Dear Mr. Williams:

At your request, Groundwater and Environmental Services, Inc. (GES) has compiled an estimate of costs for the removal of asbestos containing materials (ACM) and other select hazard concerns at the former Grain Belt office building located at 1215 Marshall Avenue NE. This estimate of costs is based on certain assumptions. Actual costs can vary greatly based on time of year, scheduling, and work load in the region.

Asbestos Removal	
Ceiling Spray	\$58,500
Floor Tile and Adhesive	\$27,000
Pipe Insulation	\$15,000
Window Glaze	\$35,000
Basement Restroom	\$6,000
Air Monitoring	\$10,000
Lead Paint Stabilization/Removal	\$25,000
Tar removal/encapsulate and disposal	\$3,000
Specifications/Bid Documents/Management	\$17,000

**Total Estimated Abatement Costs: \$196,500**

**Assumptions:**

- Work will be completed over a 3-4 week period.
- Ceiling spray will be removed by scraping the ACM from the drywall. Drywall may require surface preparation prior to reuse.
- Window glaze will be removed by removing the glass pane (non-intact). Add \$10,000 for removing window sash (glass intact) and saving the interior slide frame for reuse.
- Includes removal of loose lead-based paint, including loose lead-based paint behind wall paper.
- Lead based paint in good condition is to remain in place.
- Costs do not include the removal of lead containing varnish finishes.



*Mr. Mike Williams*  
*Page 2*

GES appreciates the opportunity to work with you on this project and looks forward to continued service. Please telephone me at 800/735-1077 ext. 3174 with any questions you may have regarding this submittal.

Sincerely,

**Groundwater and Environmental Services, Inc.**

Robert E. Jensen, CHMM  
Site Operations Manager  
Minnesota Asbestos Project Designer # AD3648

# PROPOSED BUDGET

Offeror: Kristi Oman, Developer

Property Address: 1215 Marshall Street NE, Minneapolis

Acquisition Cost	\$400,000.00
General Conditions	\$71,796.00
Demolition	\$58,810.00
Site Utilities	\$20,000.00
Cast In Place Concrete	\$111,543.00
Pre-cast Concrete	\$40,355.00
Tuckpointing	\$71,980.00
Unit Masonry	\$12,100.00
Rough Carpentry	\$66,357.00
Roofing	\$248,932.00
Doors, Frames and Hardware	\$81,880.00
Glazing and Storm Windows	\$18,450.00
Drywall	\$86,250.00
Tile	\$12,595.00
Painting	\$52,806.00
Wood Flooring, Repairs	\$21,080.00
Fire Protection Specialties	\$249.00
Protective Covers	\$5000.00
Toilet and Bath Accessories	\$1175.00
Miscellaneous Specialties	\$4587.00
Fire Protection	\$26,850.00
Plumbing	\$58,884.00
HVAC	\$96,940.00
Electrical	\$160,675.00
Landscaping	\$14,446.00
Elevator	\$40,000.00
Asbestos Abatement	\$210,549.00
Engineering & Architectural Fees	\$155,476.00
Builder's Risk Insurance	\$2343.00
	\$1,749,785.00
5% Contingency	\$87,606.40
Permit Cost (Approx)	\$26,303.00
Contractor's Fee	\$95,432.00
<b>Total Development Cost</b>	<b>\$1,959,126.40</b>

Less: Acquisition Cost \$400,000

Less: Asbestos Abatement \$210,549

Adjusted Development Cost \$1,348,577 \*

## ***SALES COMPARISON APPROACH***

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The Sales Comparison Approach produces an indication of value by comparing the prices paid, asked and offered in the marketplace on properties that bear characteristics similar to the property being appraised. It represents the actions of informed buyers, sellers and investors in the marketplace. The basis of the approach is the Principle of Substitution, which states that a prudent purchaser will not pay more for a property than it will cost them to buy a similar substitute property.

The application of the approach requires the appraiser to correlate and analyze the market data of similar properties. A common denominator or unit of comparison between a similar or comparable property and the subject property must be determined. Units of comparison such as price per gross square foot, price per unit or the gross rent multiplier are commonly employed in appraisal practice. The subject will be analyzed based on its rentable area. The soundness of the method depends upon the following considerations:

- a) The comparability to the subject of each sale being analyzed.
- b) The accuracy of the sale data.
- c) The terms of the sale.
- d) The date of the sale.

The appraiser must then adjust each comparable property's unit of comparison for every aspect that the comparable property differs materially from the corresponding aspect of the subject property. The appraiser almost always adjusts the characteristics of the comparable to those of the property being appraised, and this is usually done on a percentage basis. If the comparable is superior in any way to the subject, it represents a relationship to the subject of more than 100%. If the comparable is inferior to the subject, it represents a relationship to the subject of less than 100%. Both are adjusted by division. The adjustment for time is usually made first in order to bring the varying transaction dates of the comparables to an equal status current with the appraisal date. This adjustment is by simple multiplication. At the end of this process, the adjustments are reconciled in order to arrive at a net overall adjustment of each comparable to the subject. Those comparables requiring the least overall and net adjustment are most often held to bear the most resemblance to the subject, and therefore, are accorded the most relevance in the final value conclusion.

An investigation and analysis into the sale of older, historic office buildings resulted in six comparable properties being selected. All of the comparables are located in neighborhoods outside of the subject's as there were no recent transactions of similar properties in Northeast Minneapolis. In general, Northeast Minneapolis is primarily a residential neighborhood. For purposes of this analysis, the adjustments to the comparables were based on the comparison to the subject as if the deferred maintenance items were already corrected. The estimated deferred maintenance items were then subtracted from this conclusion to arrive at the 'as-is' opinion of market value by the Sale Comparison Approach. A location map of the comparables is located on the next page followed by narrative descriptions of each of the comparable sales. An adjustment grid, the associated discussion of adjustments, and the value indications by the Sales Comparison Approach are then presented.



## SALES COMPARISON APPROACH



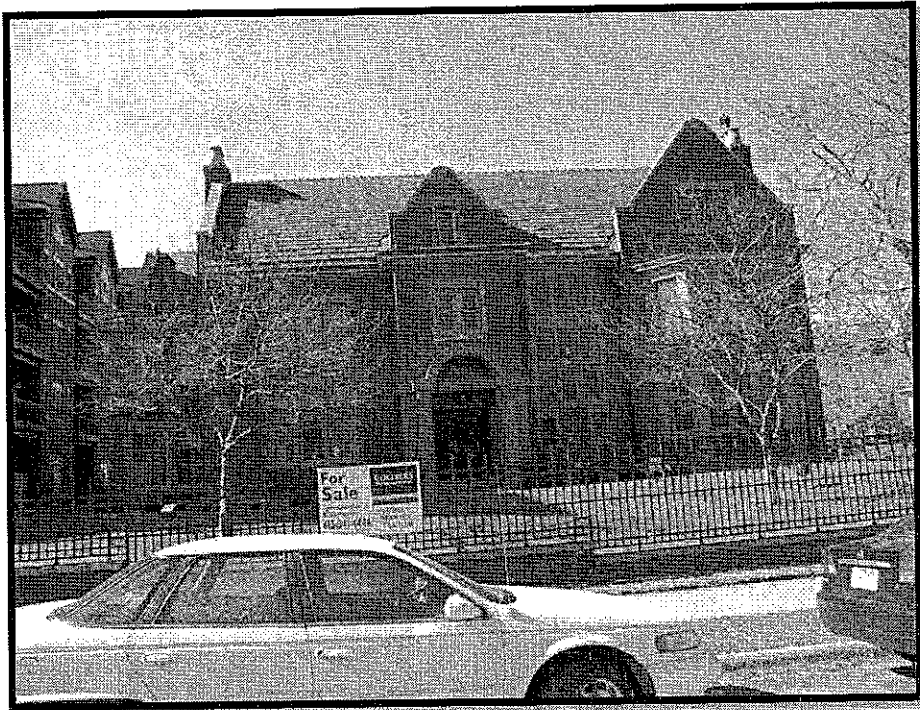
*Comparable Improved Sales*

**N4**

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 1**



<b>Name:</b>	<b>Clifton Mansion</b>
<b>Location:</b>	309 Clifton Avenue Minneapolis, MN
<b>PID No.:</b>	27-029-24-33-0016, Hennepin County, MN
<b>Sale Date:</b>	February 27, 2008
<b>Seller:</b>	Clifton Street Partners, LLC
<b>Buyer:</b>	El-Ghazzawy Group, LLC
<b>Land Area:</b>	26,780 square feet, or 0.61 acre
<b>Zoning:</b>	OR-3, Institutional Office Residence District with a DP, Downtown Parking and SH, Shoreland overlay.
<b>Gross Building Area:</b>	13,922 square feet (includes basement area)
<b>Rentable Area:</b>	10,922 square feet
<b>Land/Building Ratio:</b>	1.92/1
<b>Year Built:</b>	1911
<b>Year Renovated:</b>	1987
<b>Stories/Exterior:</b>	2½ story building with a brick exterior
<b>Elevator:</b>	None
<b>Condition:</b>	Average
<b>Parking:</b>	±20 on-site parking spaces
<b>Sale Terms:</b>	Cash equivalent
<b>Sale Price:</b>	\$1,450,000
<b>Price/\$/SF of GBA:</b>	\$104.15
<b>Price/\$/SF of RA:</b>	<b>\$132.76</b>

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 1 (continued)**

Comments: The property is located on the north side of Clifton Avenue in the Loring Park neighborhood of Minneapolis. The property has been owner-occupied by a non-profit organization since they acquired it in 1986. The improvements consist of a mansion, carriage house, and detached garage. The mansion and carriage house have been converted to office space. The property's parking area can be accessed from Clifton or Groveland Avenues.

The property was originally listed at \$2,200,000 and the price was dropped to \$1,950,000 before an offer was accepted at \$1,450,000. The property was on the market approximately 20 months.

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 2**



<b>Name:</b>	<b>Loring Medical Building</b>
<b>Location:</b>	1409 Willow Street Minneapolis, MN
<b>PID No.:</b>	27-029-24-31-0190, Hennepin County, MN
<b>Sale Date:</b>	February 20, 2007
<b>Seller:</b>	1409 Willow, LLC
<b>Buyer:</b>	Loring Medical Building, LLC
<b>Land Area:</b>	20,738 square feet, or 0.48 acre
<b>Zoning:</b>	OR-3, Institutional Office Residence District with a DP, Downtown Parking and SH, Shoreland overlay.
<b>Gross Building Area:</b>	22,631 square feet (includes basement area)
<b>Rentable Area:</b>	18,000 square feet
<b>Land/Building Ratio:</b>	0.92/1
<b>Year Built:</b>	1925
<b>Year Renovated:</b>	1980's
<b>Stories/Exterior:</b>	Six story building with a brick exterior
<b>Elevator:</b>	Yes
<b>Condition:</b>	Average
<b>Parking:</b>	±50 on-site parking spaces
<b>Sale Terms:</b>	Cash equivalent
<b>Sale Price:</b>	\$2,700,000
<b>Price/\$/SF of GBA:</b>	\$119.31
<b>Price/\$/SF of RA:</b>	<b>\$150.00</b>

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 2 (continued)**

Comments: The property is located on the east side of Willow Street and has westerly views of Loring Park in Minneapolis. The property has floor plates that are roughly 3,000 square feet in size. This historic, multi-tenant office building has had a high concentration of psychiatrist offices over the years. The basement area houses the mechanicals and is used for storage. The property's parking area can be accessed from Willow Street or Spruce Place.

The building was renovated in the 1980's with a new roof, windows, HVAC, electrical, and security systems. The building also has terrazzo floors throughout the common and lobby areas.

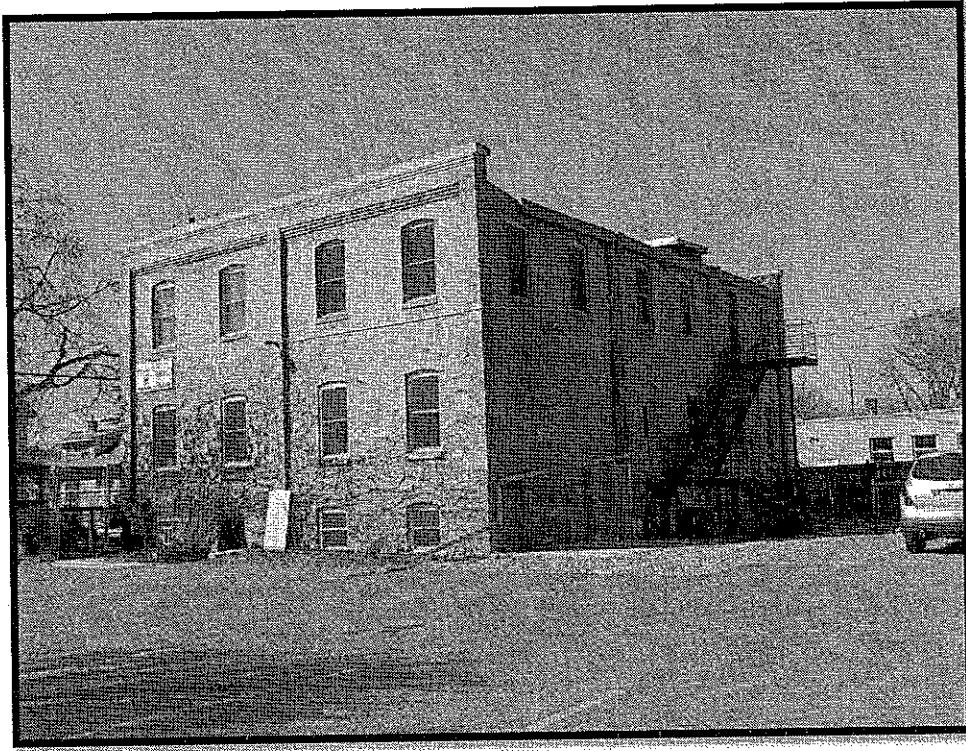
The buyer is converting the building into office condominiums. The units range from 342 to 3,000 square feet, and have asking prices starting from \$85,500/unit.

The building had previously sold in August 2005 for \$2,000,000 to 1409 Willow, LLC from Loring Properties, Ltd. This price was at \$111.11 per square foot of rentable area, and compared to the most recent sale price of \$150.00 per square foot of rentable area in February 2007, represents as 20.5% annual increase. The motivation of the buyer was driven by the condominium conversion, which was favorable given the long, historic occupancy by the same psychiatrists and the good on-site parking.

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 3**



<b>Name:</b>	<b>Office Building</b>
<b>Location:</b>	2115 Como Avenue Southeast Minneapolis, MN
<b>PID No.:</b>	19-029-23-21-0207, Hennepin County, MN
<b>Sale Date:</b>	April 4, 2006
<b>Seller:</b>	Larry and Christie Hamstad
<b>Buyer:</b>	Maverick Ventures, LLC
<b>Land Area:</b>	15,358 square feet, or 0.35 acre
<b>Zoning:</b>	C-1, Neighborhood Commercial District
<b>Gross Building Area:</b>	9,600 square feet (includes basement area)
<b>Rentable Area:</b>	7,200 square feet
<b>Land/Building Ratio:</b>	1.60/1
<b>Year Built:</b>	1904
<b>Year Renovated:</b>	1990's
<b>Stories/Exterior:</b>	Two story building with a brick exterior
<b>Elevator:</b>	Yes (manual)
<b>Condition:</b>	Average
<b>Parking:</b>	±9 on-site parking spaces
<b>Sale Terms:</b>	Cash equivalent
<b>Sale Price:</b>	\$755,000
<b>Price/\$/SF of GBA:</b>	\$78.65
<b>Price/\$/SF of RA:</b>	<b>\$104.86</b>

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 3 (continued)**

Comments: The property is located at the northwest intersection of Como Avenue and 21<sup>st</sup> Avenue Southeast near the University of MN campus in Minneapolis. The building is divided into two office areas on the 1<sup>st</sup> and 2<sup>nd</sup> floor, and also contains a residential unit on the 2<sup>nd</sup> floor. The property's parking is located in a rear lot accessed from 21<sup>st</sup> Avenue Southeast.

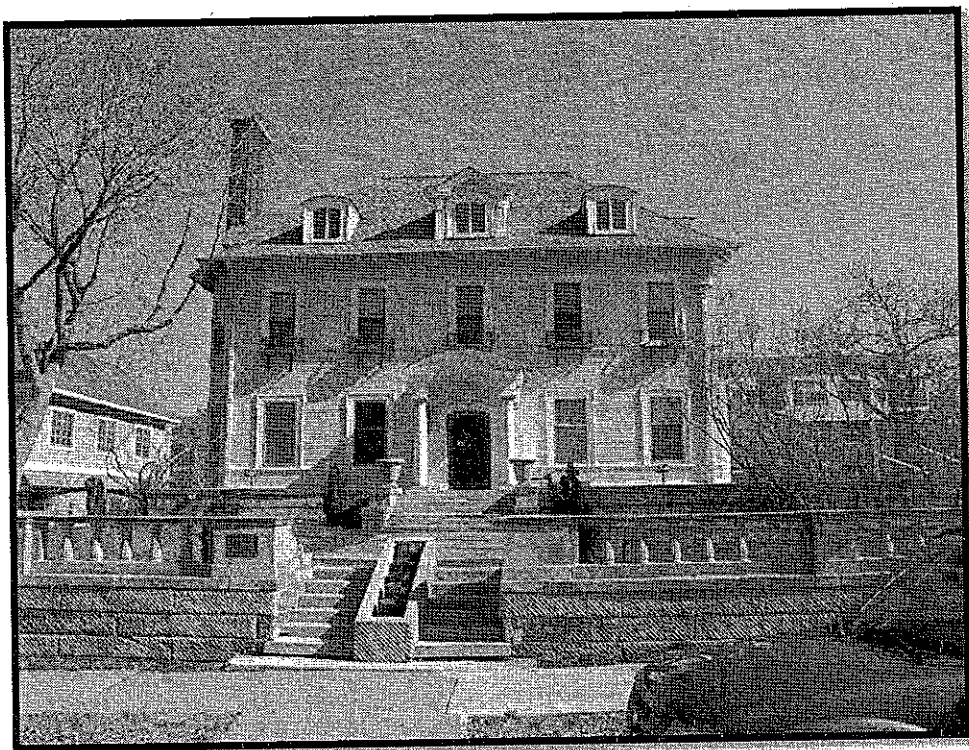
The buyer has the portion of the building currently listed for lease that was formerly occupied by the seller. The asking rental rate is approximately \$10.00 to \$12.00 on a net basis with expenses of roughly \$3.00 to \$3.50 per square foot according to the listing broker.



## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 4**



<b>Name:</b>	<b>Eugene Carpenter House</b>
<b>Location:</b>	300 Clifton Avenue Minneapolis, MN
<b>PID No.:</b>	27-029-24-33-0003, Hennepin County, MN
<b>Sale Date:</b>	November 28 <sup>th</sup> , 2005
<b>Seller:</b>	Bell House Properties, Inc.
<b>Buyer:</b>	SND Development, LLC
<b>Land Area:</b>	25,950 square feet, or 0.60 acre
<b>Zoning:</b>	OR-2, High Density Office Residence District
<b>Gross Building Area:</b>	12,515 square feet (includes basement area)
<b>Rentable Area:</b>	10,078 square feet
<b>Land/Building Ratio:</b>	2.07/1
<b>Year Built:</b>	1906
<b>Year Renovated:</b>	1980's
<b>Stories/Exterior:</b>	2.5 story building with a wood exterior
<b>Elevator:</b>	None
<b>Condition:</b>	Average
<b>Parking:</b>	±20 on-site parking spaces
<b>Sale Terms:</b>	Cash equivalent
<b>Sale Price:</b>	\$1,025,000
<b>Price/\$/SF of GBA:</b>	\$81.90
<b>Price/\$/SF of RA:</b>	<b>\$101.71</b>



## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 4 (continued)**

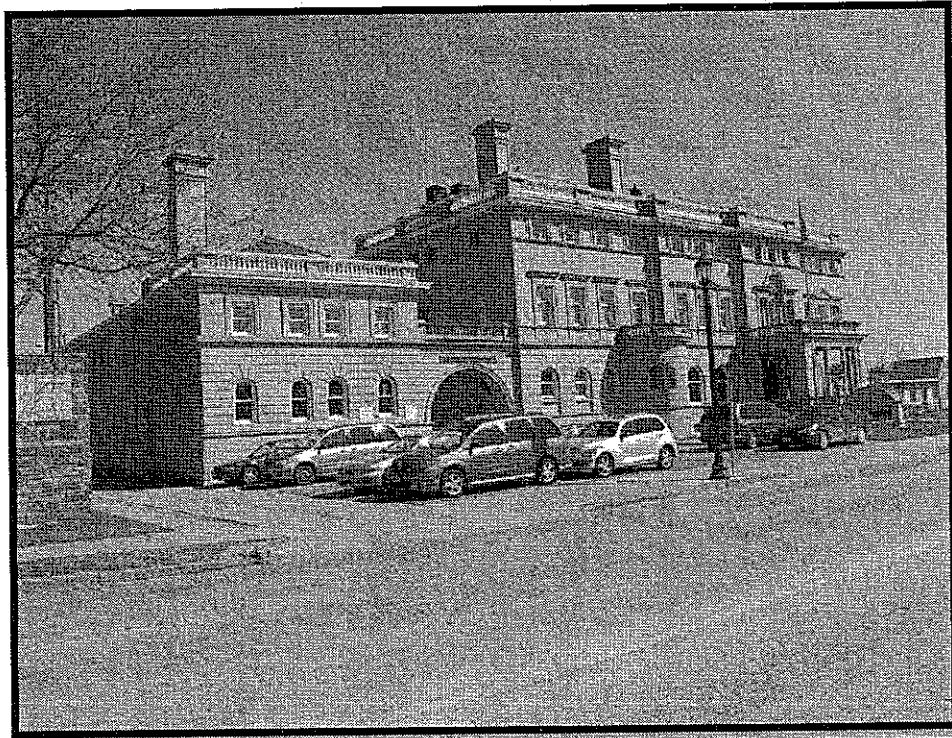
Comments: The property is located on the south side of Clifton Avenue in the Loring Park neighborhood of Minneapolis. The property is on the historical register. The improvements consist of a mansion, carriage house, and detached garage at were last renovated in the 1980's. The property's parking area is accessed from Clifton Avenue.

The property was originally listed at \$1,199,000 for just over 13 months before it transacted at the \$1,025,000 sale price, (14.5%) less.

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 5**



<b>Name:</b>	<b>Semple Mansion</b>
<b>Location:</b>	100 and 104 West Franklin Minneapolis, MN
<b>PID No.:</b>	27-029-24-34-0128 and -0129, Hennepin County, MN
<b>Sale Date:</b>	September 16, 2005
<b>Seller:</b>	African American Family Services
<b>Buyer:</b>	Kristina and Zev Oman
<b>Land Area:</b>	19,992 square feet, or 0.46 acre
<b>Zoning:</b>	OR-2, High Density Office Residence District
<b>Gross Building Area:</b>	24,600 square feet (includes basement area)
<b>Rentable Area:</b>	20,000 square feet
<b>Land/Building Ratio:</b>	0.81/1
<b>Year Built:</b>	1901
<b>Year Renovated:</b>	1980's
<b>Stories/Exterior:</b>	Three story building with a masonry exterior
<b>Elevator:</b>	None
<b>Condition:</b>	Average
<b>Parking:</b>	±18 on-site parking spaces
<b>Sale Terms:</b>	Cash equivalent
<b>Sale Price:</b>	\$1,500,000
<b>Price/\$/SF of GBA:</b>	\$60.98
<b>Price/\$/SF of RA:</b>	<b>\$75.00</b>

## **SALES COMPARISON APPROACH**

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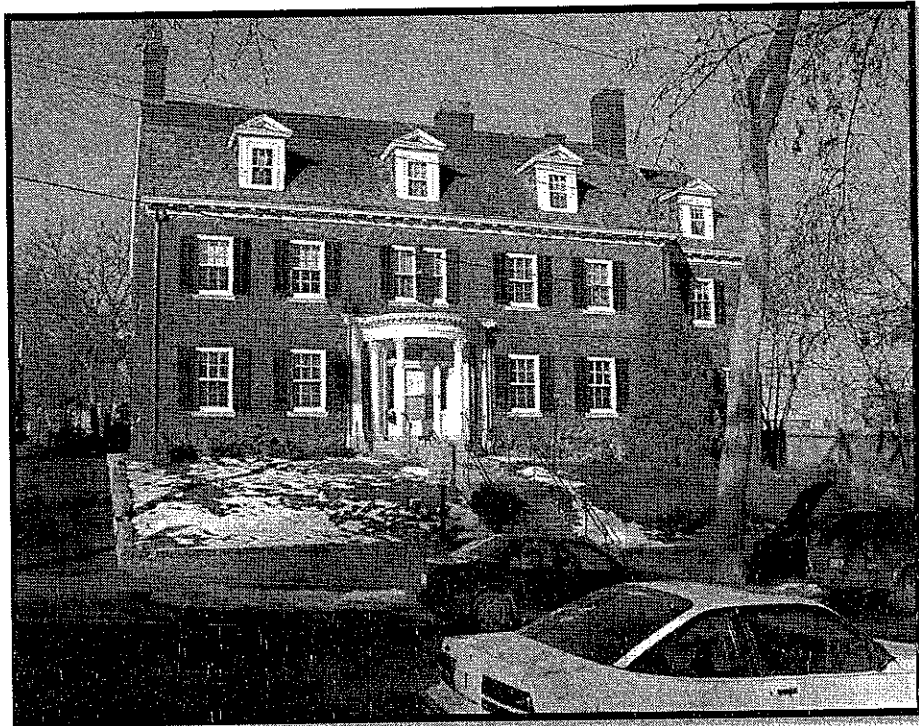
### **Improved Sale Comparable No. 5 (continued)**

Comments: The property is located just north of Franklin Avenue at the LaSalle Avenue intersection in the Whittier neighborhood of Minneapolis. For many years the building was the headquarters of the Franklin National Bank. The property was formerly occupied by a non-profit organization and the buyer has converted it to a multi-tenant office building/event center. The property's parking is located in a rear lot accessed from Franklin or LaSalle Avenues.

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 6**



<b>Name:</b>	<b>Bolder Options Building</b>
<b>Location:</b>	2100 Stevens Avenue South Minneapolis, MN
<b>PID No.:</b>	34-029-24-12-0052, Hennepin County, MN
<b>Sale Date:</b>	June 1 <sup>st</sup> , 2004
<b>Seller:</b>	Sheridan Kelly and Martha Spriggs
<b>Buyer:</b>	Bolder Options
<b>Land Area:</b>	13,174 square feet, or 0.302 acre
<b>Zoning:</b>	OR-2, High Density Office Residence District
<b>Gross Building Area:</b>	11,248 square feet (includes basement area)
<b>Rentable Area:</b>	6,327 square feet
<b>Land/Building Ratio:</b>	1.17/1
<b>Year Built:</b>	1906
<b>Year Renovated:</b>	2000
<b>Stories/Exterior:</b>	Two story building with a brick exterior
<b>Elevator:</b>	None
<b>Condition:</b>	Average
<b>Parking:</b>	±15 on-site parking spaces
<b>Sale Terms:</b>	Cash equivalent
<b>Sale Price:</b>	\$825,000
<b>Price/\$/SF of GBA:</b>	\$73.35
<b>Price/\$/SF of RA:</b>	<b>\$130.39</b>

## **SALES COMPARISON APPROACH**

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### **Improved Sale Comparable No. 6 (continued)**

Comments: The property is located just south of Franklin Avenue in the Whittier neighborhood of Minneapolis. The building is divided into office areas ranging in size from approximately 600 square feet to 2,800 square feet. The gross rents ranged from \$16 to \$20 per square foot. The basement area is partially finished, but lacks lookout windows. The building sits quite a bit higher than the grade of Stevens Avenue. There is also a driveway off Stevens Avenue South to a tuck-under garage at the north end of the building. The property's parking is located in a rear lot accessed by a driveway at the south end of the property.

The buyer intends to owner-occupy the facility when the existing leases expire. A large portion of the building was available for rent at \$16 per square foot on a gross basis at the time of the sale. The buyer is a non-profit organization.

# Grain Belt Office Property

Valuation Date: January 21 2009

OUTLINED BELOW IS A DATA SUMMARY OF THE CITED COMPARABLE BUILDING SALES DATA

COMP NO.	1	2	3	4	5	6	SUBJECT
NAME	Clifton Mansion	Loring Medical Building	Office Building	Eugene Carpenter House	Semple Mansion	Bolder Options Building	Grain Belt Office Property
ADDRESS	309 Clifton Avenue Minneapolis	1409 Willow Street Minneapolis	2115 Como Ave SE Minneapolis	300 Clifton Avenue Minneapolis	100 and 104 Franklin Ave W Minneapolis	2100 Stevens Avenue South Minneapolis	1215 Marshall Street NE Minneapolis
SALE DATE	Feb-08	Feb-07	Apr-06	Nov-05	Sep-05	Jun-04	-
LAND AREA - SF	26,780	20,738	15,358	25,950	19,992	13,174	22,800
ACRES	0.61	0.48	0.35	0.60	0.46	0.30	0.52
ACCESSIBILITY/VISIBILITY	Similar	Similar	Similar	Similar	Similar	Similar	Average
DAILY TRAFFIC VOLUME	n/a	10 700	10 600	n/a	13 500	4 900	12 700
GROSS BUILDING AREA - SF	13 922	22 631	9 600	12 515	24 600	11 248	19 316
RENTABLE AREA - SF <sup>(1)</sup>	10,922	18,000	7,200	10,078	20,000	6,327	13,357
EFFICIENCY RATIO	78%	80%	75%	81%	81%	56%	69%
STORIES	2.5	6.0	3.0	2.5	3.0	3.0	2
ELEVATOR	No	Yes	Yes	No	No	No	Yes
LAND TO BUILDING RATIO	1.92	0.92	1.60	2.07	0.81	1.17	1.18
ON-SITE PARKING	20	50	9	20	18	15	34
RENTABLE AREA PER PARKING STALL	546	360	800	504	1,111	422	393
SINGLE vs MULTI-TENANT DESIGN	Multi	Multi	Multi	Multi	Multi	Multi	Single
USE	Office	Office	Office	Office	Office	Office	Office
YEAR BUILT / RENOVATED <sup>(2)</sup>	1911 ; 1987	1925 ; 1980's	1904; 1990's	1906; 1980s	1901; 1980s	1906; 2000	1892; 2007
CONDITION <sup>(2)</sup>	Average	Average	Average	Average	Average	Average	Good
EFFECTIVE AGE (years) <sup>(2)</sup>	25	20	20	30	30	15	5
SALE PRICE	\$1,450,000	\$2,700,000	\$755,000	\$1,025,000	\$1,500,000	\$825,000	
SALE PRICE/SF GROSS BUILDING AREA	\$104.15	\$119.31	\$78.65	\$81.90	\$60.98	\$73.35	
SALE PRICE/SF RENTABLE AREA	\$132.76	\$150.00	\$104.86	\$101.71	\$75.00	\$130.39	
SALE TERMS	Cash Eq	Cash Eq.	Cash Eq.	Cash Eq.	Cash Eq.	Cash Eq.	
MONTHS FOR TIME ADJUSTMENT	11	23	34	38	40	56	
ADJUSTMENTS:							
TIME ADJ	0.83	0.90	0.95	0.98	1.00	1.18	
TIME ADJ PRICE/SF RENTABLE AREA	\$110.63	\$135.00	\$100.09	\$99.48	\$74.71	\$153.30	
OTHER ADJUSTMENTS:							
LOCATION ADJUSTMENT	Sup -10%	Sup -10%	Inf 5%	Sup -10%	Sup -5%	Sup -5%	
ACCESS/VISIBILITY ADJUSTMENT	Inf 10%	Equal 0%	Equal 0%	Inf 10%	Equal 0%	Inf 5%	
BUILDING APPEAL/QUALITY ADJUSTMENT	Equal 0%	Equal 0%	Inf 10%	Equal 0%	Equal 0%	Equal 0%	
BUILDING SIZE ADJUSTMENT	Equal 0%	Inf 5%	Sup -5%	Equal 0%	Inf 5%	Sup -5%	
LAND TO BUILDING RATIO ADJUSTMENT	Equal 0%	Equal 0%	Equal 0%	Equal 0%	Equal 0%	Equal 0%	
ON-SITE PARKING ADJUSTMENT	Inf 5%	Equal 0%	Inf 10%	Inf 5%	Inf 15%	Equal 0%	
AGE/CONDITION ADJUSTMENT	Inf 20%	Inf 15%	Inf 15%	Inf 25%	Inf 25%	Inf 10%	
MISCELLANEOUS ADJUSTMENT	Equal 0%	Equal 0%	Equal 0%	Equal 0%	Equal 0%	Equal 0%	
NET ADJUSTMENT %	25%	10%	35%	30%	40%	5%	
NET ADJUSTMENT FACTOR (+)	Inf 0.75	Inf 0.90	Inf 0.65	Inf 0.70	Inf 0.60	Inf 0.95	
ADJUSTED PRICE/SF - RENTABLE	\$147.51	\$150.00	\$153.98	\$142.11	\$124.52	\$161.37	
	UNADJUSTED :		ADJUSTED :				
	Minimum/sf	\$75.00		Minimum/sf	\$124.52		
	Maximum/sf	\$150.00		Maximum/sf	\$161.37		
	Average/sf	\$115.79		Average/sf	\$146.58		
	Median/sf	\$117.63		Median/sf	\$148.76		

(1) Rentable Area consists mainly of above ground space, but does include some below ground area that is finished and contains some natural lighting.

(2) Subject's condition assumes deferred maintenance items are fixed.

## SALES COMPARISON APPROACH

### Adjustment Analysis

The following is an analysis and explanation of the indicated adjustments made on each of the comparable office building sales cited in this report.

- A. **Cash Equivalency Adjustment** - If a sale comparable involved favorable or below market financing, an adjustment was made to the sales price based on market financing rates at the time of sale to reflect this variance in order to equate the price to a cash sale. All of the sales involved cash equivalent transactions, thus, no adjustments for financing were necessary.
- B. **Time Adjustment** - The purpose of this adjustment is to bring the varying transaction dates of the comparables to an equal status current with the appraisal date by applying adjustments for changes in market conditions. For this analysis, the actual date of closing has been relied on as the transaction date. Typically, both the buyer and the seller are aware of the changing market conditions. They also realize that it may take several months for a closing to take place. If the time between the purchase agreement and the closing date is considerable, the price usually reflects the risk or holding costs. Furthermore, some purchase agreements do not come to fruition in the form of a sale. The date of the purchase agreement and the terms are considered a good indication of value, but a bona fide sale is considered a better measure.

The improved sales included sold between June 2004 and February 2008. The following market condition adjustments were applied for each year:

<u>Year</u>	<u>% Adjustment</u>
2004	+ 10%
2003	+ 15%
2006	+ 5%
2007	+ 15%
2008	(20%)

The above adjustments were arrived at by studying rental rates and capitalization rates over time for Class B office buildings that are summarized below. The decline in 2008 is directly related to the recession and the financial crisis previously discussed.

<u>Date</u>	<u>Class B Average Office Rents in Northeast Market Sector (1)</u>		<u>Office Capitalization Rates in the Twin Cities (1)</u>		<u>Implied Market Value (Rent ÷ Cap. Rate)</u>	
	<u>Per SF</u>	<u>% Change</u>	<u>Rate</u>	<u>% Change</u>	<u>Per SF</u>	<u>% Change</u>
12/31/2003	\$10.73		9.0%		\$119.22	
12/31/2004	\$10.47	-2.4%	8.0%	-11.1%	\$130.88	9.77%
12/31/2005	\$11.08	5.8%	7.3%	-8.8%	\$151.78	15.97%
12/31/2006	\$11.21	1.2%	7.0%	-4.1%	\$160.14	5.51%
12/31/2007	\$11.69	4.3%	6.4%	-8.6%	\$182.66	14.06%
12/31/2008	\$11.33	-3.1%	7.6%	18.8%	\$149.08	-18.38%

(1) - Source: Northmarq

## ***SALES COMPARISON APPROACH***

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- C. ***Location Adjustment*** - This comparison aspect reflects a number of variant general and specific location factors relative to the subject such as abutting property uses, neighborhood trends, etc. The sale comparables are all located in older, established neighborhoods in the City of Minneapolis, and as such, have similar market influences. This adjustment is more subjective in nature, but can often be correlated back to the rent levels in a particular neighborhood. Sales Nos. 1, 2, and 4-6 were considered superior for this adjustment factor, while Sale No. 3 was considered inferior.
- D. ***Access/Visibility/Traffic Exposure Adjustment*** - This adjustment deals with the access/exposure to and from major thoroughfares/streets, and also, the proximity to these routes that a particular comparable property sale has. This adjustment attempts to account for factors such as, specific site access factors, including the number and location of curb cuts, nearby street traffic flow patterns, and the visibility or exposure to daily traffic volumes in the area. Sale Nos. 1, 4, and 6 were considered inferior for this adjustment factor.
- E. ***Building Appeal/Quality/Design Adjustment*** - This adjustment accounts for differences in building curb appeal, quality (i.e. built-in cabinets and excess plumbing fixtures), and overall functional design. Sale No. 3 was held to be inferior for this factor.
- F. ***Land to Building Ratio Adjustment*** - Generally, properties having a higher land to building ratio will sell for a higher price per unit given the higher value of the land component and the implication that these properties typically possess off-street parking or some amount of expansion potential. No adjustments were made for this factor due to all of the sites being relatively small and on-site parking is addressed in the below adjustment.
- G. ***On-Site Parking Adjustment*** - This adjustment was made by comparing the rentable area per parking stall of the comparables to the subject's. As a result, Sales Nos. 1, 3, 4, and 5 were held to be inferior.
- H. ***Age/Quality/Condition Adjustment*** - Adjustments here are based on the property's effective age. An approximate 1.0% per year adjustment was estimated for each year's difference in effective age between the subject and the comparables.
- I. ***Miscellaneous Adjustment*** - Not applied



## **SALES COMPARISON APPROACH**

### **Summary**

Through the application of the Sales Comparison Approach, the sales of six comparable older, renovated office properties were analyzed for the purpose of estimating the market value of the subject property.

As previously stated, all of the cited office building sales were compared to the subject as if the deferred maintenance items in the subject have been corrected/repared for the subject property. All of the sales were considered to be either cash or cash equivalent based. Prior to adjustment, the sales exhibited a range of price from roughly between \$75.00 to \$150.00 per square foot on rentable area. The average unadjusted sale price was \$115.79 per square foot. After adjusting for characteristic differences with the subject, the sales exhibited a range in value from \$124.52 to \$161.37 per square foot of rentable area. The mean after adjustment was \$146.58 per square foot and the median was \$148.76 per square foot.

Overall, all of the comparables were given consideration. Giving equal weight to all of the comparables, a reconciled value of \$150.00 per square foot of rentable area for the subject property was concluded. The estimated deferred maintenance items were then subtracted from this conclusion to arrive at the 'as-is' opinion of market value by the Sale Comparison Approach. This results in a market value indication as follows:

<b>Rentable Area - sf</b>	<b>x</b>	<b>Estimated Market Value/sf</b>	<b>=</b>	<b>Indicated Value</b>
13,357	x	\$150.00	=	\$2,003,475
less: Deferred Maintenance Costs				(\$2,000,000)
Indicated Market Value by the Sales Comparison Approach				\$3,475
				rounded to, \$0

## INCOME APPROACH

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The Income Approach to value is most applicable to types of real estate that are owned for investment purposes. The Principle of Anticipation is fundamental to this approach. According to The Appraisal of Real Estate, Twelfth Edition, on page 35, “*Anticipation is the perception that value is created by the expectation of benefits to be derived in the future.*” The Income Approach to value consists of analyzing a property’s ability to generate income and to convert such income into an indication of present value. The market value of a particular property can usually be derived from the quantity, quality, and durability of the income stream the property produces.

The following steps have been employed to arrive at a market value indication by the Income Approach:

- 1) *Potential Gross Income (PGI) has been estimated based on current market rentals being charged and/or offered in the marketplace on properties comparable to the subject. Included in the PGI are the reimbursable expenses estimated in step 3 as a net rent is being projected. This treatment of the reimbursable expenses properly accounts for the lost reimbursable expenses when the facility is vacant.*
- 2) *A deduction for vacancy/collection is applied to the Potential Gross Income estimate to arrive at an Effective Gross Income (EGI) figure.*
- 3) *Next, expenses for the operation of the property including fixed expenses such as taxes and insurance and variable expenses such as utilities, management, and replacement reserves are estimated, totaled and then deducted from Effective Gross Income to arrive at a Net Operating Income Estimate.*
- 4) *An appropriate capitalization rate, based on market data, is then applied to the Net Operating Income resulting in an indication of value.*

The Net Income is money that is left to pay mortgage debt service, equity return and income taxes if depreciation is insufficient to cover any income tax liability. Capitalization is the procedure of taking the net income stream and converting it into an indication of value. There is no one consistent right way to capitalize net income. It is the appraiser’s job to select the appropriate rate and method for the particular property being appraised.

The subject facility is a small office building that could operate as a single-tenant or a multi-tenant property. The most probable buyer would be an owner-user whom occupied at least 50% of the facility, if not the entire facility. A direct capitalization process using a market base overall capitalization rate ( $R_o$ ) analysis was considered the most reliable and commonly accepted technique for this type of property.

## INCOME APPROACH

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### INCOME ANALYSIS

#### Market Rent

To estimate the 'market rent' of the subject real estate, the appraisers have completed a rental survey of comparable rentals. The results of this survey are summarized on the next page. A location map of the comparables is presented on the page following the summary.

For this analysis, 'Market Rent' is defined in The Dictionary of Real Estate Appraisal, Fourth Edition, copyright 2002 by the Appraisal Institute as:

*"The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions and expense obligation; the lessee and lessor each acting prudently and knowledgeably and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby.*

- 1. Lessee and lessor are typically motivated*
- 2. Both parties are well informed or well advised, and acting in what they consider their best interests.*
- 3. A reasonable time is allowed for exposure in the open market.*
- 4. The rent payment is made in terms of cash in United States dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract.*
- 5. The rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction "*

The rental comparables summarized on the next page have the following characteristics:

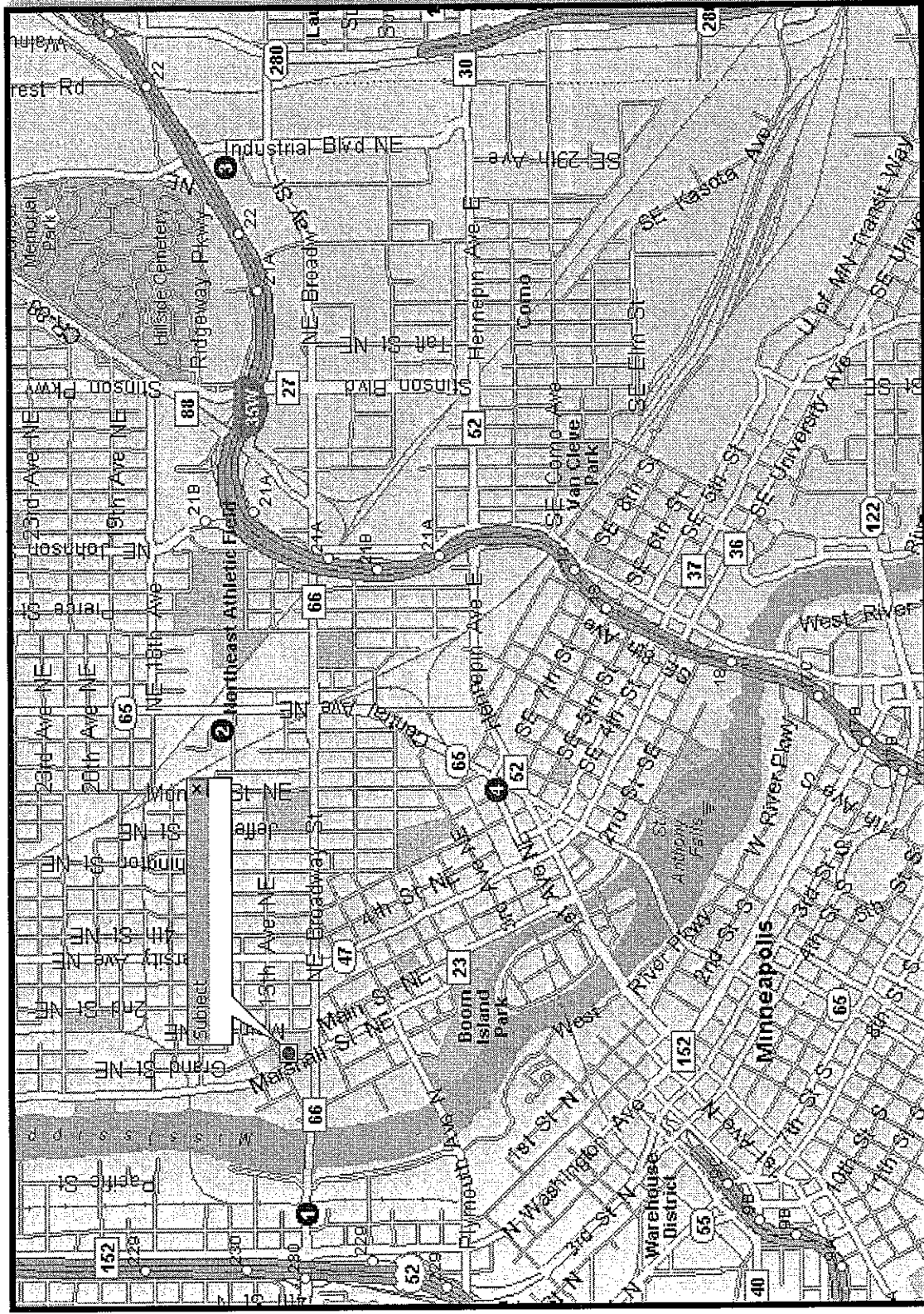
<i>Vacancy Rate</i>	<i>23.6%</i>
<i>Average CAM and RE Tax Expense</i>	<i>\$8.04 per square foot</i>
<i>Average Net Rent</i>	<i>\$10.25 per square foot</i>

# INCOME APPROACH

## Rental Comparables

No.	Address	Year Built	Year Ren.	Year Rentable Area-sf	Vacant Area-sf	% Vacant	Asking Net Rent/S/sf	RE and CAM Expenses/S/sf	Comments
1.	125 West Broadway Ave	1960	2004	18,000	4,132	23.0%	\$9.00	\$6.09	Former industrial building renovated into office/retail space.
2.	1400 VanBuren Street NE Minneapolis, MN	1916	2007	41,646	20,237	48.6%	\$10.00	n/a	Brick and timber industrial building recently renovated for office use.
3.	Broadway Place East 3433 Broadway Street NE Minneapolis, MN	1985	2002	106,350	36,818	34.6%	\$12.00	\$9.74	Multi-tenant 5-story office building. A tenant improvement allowance of \$25.00 per square foot was being offered.
4.	Banks Building 615 1st Avenue NE Minneapolis, MN	1905	n/a	135,463	9,820	7.2%	\$10.00	\$8.30	Multi-tenant building located in Northeast Minneapolis.
Totals/Averages				301,459	71,007	23.6%	\$10.25	\$8.04	

# INCOME APPROACH



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Comparable Rentals



## **INCOME APPROACH**

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### **EXPENSE ANALYSIS**

#### **Real Estate Taxes**

The stabilized assessors estimated market value (AEMV) was estimated to be roughly \$1,700,000 after the correction of the deferred maintenance items. This was based on 85% of an estimated market value of \$2,000,000. The 85% factor accounts for the lag in how property taxes are paid (i.e. paid one year in arrears), the current sale price being less than the AEMV due to the deferred maintenance items not yet having been addressed, and also considering that the AEMV is typically somewhat below that of its actual market value in many cases. An effective tax rate (ETR) of 3.5% was then utilized to estimate the stabilized annual real estate taxes at \$59,500 per year.

#### **Insurance**

Insurance was estimated at \$0.25 per square foot based on data published by IREM in the 2008 edition of Office Buildings Income/Expense Analysis.

#### **Management**

Management expenses were estimated at 3% of effective gross income based on discussion with market participants. The management company is responsible for leasing space, collecting rents, coordinating maintenance and repairs, and assuring overall tenant satisfaction.

#### **CAM (Common Area Maintenance)**

This category includes all other reimbursable operating expenses including landscaping, snow removal, and repair and maintenance. This expense was estimated at \$1.25 per square foot based on data published by IREM in the 2008 edition of Office Buildings Income/Expense Analysis and also considering the subject would likely be occupied by a single-tenant.

#### **Utilities**

Utilities include outlays for water/sewer, electricity, and heating expenses (gas). This expense was estimated at \$1.75 per square foot based on data published by IREM in the 2008 edition of Office Buildings Income/Expense Analysis.

**Unreimbursable Landlord Expenses:** A figure of \$0.10 per square foot was budgeted for landlord costs including legal, accounting, and non-reimbursable administrative costs.

**Replacement Reserves/Structural:** Structural reserves for the replacement of the short-lived components such as the roof and parking lot are typically deducted as an annual charge. A figure of \$0.15 per square foot was relied on based upon the small size of the subject improvements.

The stabilized operating statement is presented on the next page.

## INCOME APPROACH

Grain Belt Office Property Stabilized Operating Statement					
	Rentable Area		Rent /\$/Sq. Ft.		Annualized
Annual Rental Income					
Above Ground Rentable Area	13,357	x	\$12.00	=	\$160,278
add: Reimbursable Expenses	13,357	x	\$8.30	=	\$110,797
Potential Gross Income (PGI)	13,357	x	\$20.30	=	\$271,075
less: Vacancy and Collection Loss	@	3.0%			(\$8,132)
Effective Gross Income (EGI)	13,357	x	\$19.69	=	\$262,943
less: Annual Operating Expenses					
Reimbursable Expenses					
RE Taxes	@	\$4.45 /sf	=		\$59,500
Insurance	@	\$0.25 /sf	=		\$3,339
Management Fee	@	3% of EGI	=		\$7,888
Utilities	@	\$1.75 /sf	=		\$23,374
CAM	@	\$1.25 /sf	=		\$16,696
Unreimbursable Landlord Expenses	@	\$0.10 /sf	=		\$1,336
Replacement Reserves/Structural	@	\$0.15 /sf	=		\$2,003
Total Expenses			(\$8.55) /sf	=	(\$114,136)
Net Operating Income (NOI)					\$148,807
					or, \$11.14 per square foot

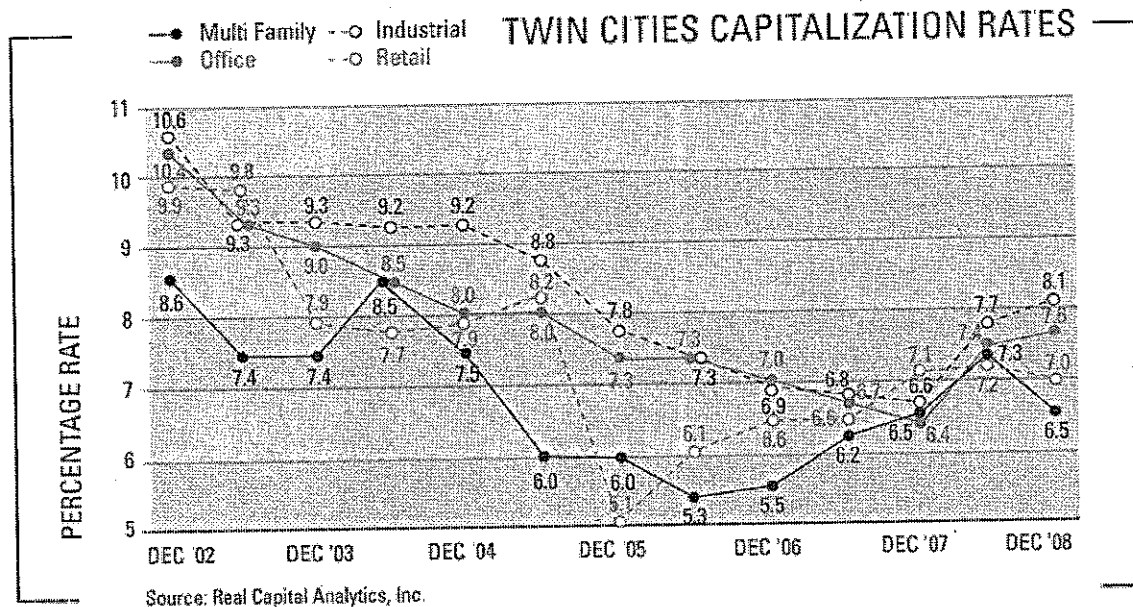
### Capitalization of the Net Income Stream

A search for comparable office building sales to extract a capitalization rate ( $R_o$ ) was conducted. There is a lack of smaller office sales with available capitalization rates as the buyers are generally owner-users. In 2007-2008, multi-tenant office buildings generally exhibited a capitalization rate in the 7.0% to 9.0% range with newer, well-occupied facilities at the lower end of the range. However, it should also be noted that there has been a lack of sales in 2008 due to the financial crisis and the shifting expectations of buyers/sellers as several sellers are holding onto properties versus selling them at the prices buyers are willing to pay.

The capitalization rate history on the next page was obtained for the Twin Cities market as published by Northmarq in their most recent market report as of December 31<sup>st</sup>, 2008. This data shows  $R_o$ 's trended downward from 2004 to 2007 (largely related to falling interest rates) and the capitalization rates are now trending upwards (largely due to rising interest rates and the lack of available funds to do financing). The graph shows an average capitalization rate of 7.4% as of June 2008 and 7.6% as of December 2008 for an office property.



## INCOME APPROACH



The band of investment technique was also utilized. In the purchase of income property, investors typically buy properties on both leveraged (or finance) and unleveraged (or total equity) bases. The leveraged basis assumes that the subject's purchase price would be made up of mortgage loan and cash equity components. Research into the commercial mortgage loan parameters as of the valuation date leads to the conclusion that a loan for 75% of market value at 6.50% interest with a 25-year amortization period and a ten year term could be obtained. The annual debt constant for such a typical loan would be 8.10%. An equity rate of 8% is considered to be reasonable and supported in the market based considering the capital investment a buyer would have to make with regard to the deferred maintenance items. A Band of Investment technique can now be evolved to develop an overall capitalization rate for the subject as follows:

BAND OF INVESTMENT ANALYSIS					
Mortgage Loan % (M)	x	Mortgage Capitalization Rate (R <sub>M</sub> )	75%	x	0.0810 = 0.0608
Equity % (E)	x	Equity Capitalization Rate (R <sub>E</sub> )	25%	x	0.0800 = 0.0200
Indicated Overall Capitalization Rate (R <sub>O</sub> )					= 0.0808
					or, 8.00%

Based on the capitalization rate data presented, a 8.00% going-in capitalization rate is appropriate for the subject property if it were at a stabilized occupancy (could be owner-occupied) at market rent levels.

## ***INCOME APPROACH***

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An indication of probable market value for the subject property by the Income Approach can now be evolved through the direct capitalization process. The table below illustrates this process utilizing an 8.00% overall capitalization rate and subtracts the deferred maintenance costs.

<b>Capitalization of the Net Income Stream</b>		
Net Operating Income		\$148,807
÷ Overall Capitalization Rate ( $R_O$ )	÷	8.00%
Indicated Market Value before Deferred Maintenance		\$1,860,083
<u>less: Deferred Maintenance Costs</u>		<u>(\$2,000,000)</u>
Indicated Market Value by the <b>Income Approach</b>		(\$139,917)
	rounded to,	<b>(\$140,000)</b>

Based on the negative value conclusion, an investor would have to lower their anticipated rate of return on their investment (the capitalization rate) or be able to achieve a higher rent level to make the project feasible with deferred maintenance costs totaling \$2,000,000. The possibility also exists an investor may be able to reduce the renovation costs. This analysis assumes the investor would have a tenant in place at the time of the purchase as it does not account for lost income during a lease-up period if the property was acquired and renovated on a speculative basis.

## ***RECONCILIATION***

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Through the application and development of two of the three standard appraisal approaches to value, this study has evolved the following indications of market value for the Grain Belt Office Property as of January 21<sup>st</sup>, 2009:

<i>Sales Comparison Approach</i>	<i>\$0</i>
<i>Income Approach</i>	<i>(\$140,000)</i>

In arriving at a Final Value Opinion, the quantity and quality of the data relied on in development of each approach was considered. It should be noted that the data relied on in the development of the two approaches is believed to be accurate based on personal interviews, verification of recorded data, and physical inspections.

The Sales Comparison Approach to value is based on the Principal of Substitution, which affirms that a prudent purchaser will not pay more for a property than it would cost them to acquire an equally desirable substitute property. A typical buyer seeks the best buy available. Consequently, the Sales Comparison Approach provides a strong indication of market value when adequate market data is available for review. A total of six sales were analyzed. This approach does provide a good indication of value as the comparables analyzed are supportive of each other and display similar characteristics to the subject.

The Income Approach considers the property as a capital investment from which a desired return of money in the form of both capital recapture and interest, or profit, is expected. It is the basis upon which investors many times place greatest emphasis as they make deliberate decisions to buy or sell real estate in the everyday marketplace. It is the subject's ability to generate a specific desired income level that is more often than not, the critical factor in determining its value in the open market. The subject is a vacant office building that is conducive to occupancy by a single-tenant. Furthermore, the most probable buyer is considered to be an owner/user versus an investor, thus, the Income Approach was given less emphasis than the Sales Comparison Approach.

Based on this reasoning and analysis, it is concluded that the market evidence best substantiates an opinion of the 'as-is' fee simple estate market value of the subject property as of January 21<sup>st</sup>, 2009 of:

**ZERO DOLLARS**

**\$0**

## ***RECONCILIATION***

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The Final Value Opinion of zero is a result of the subject suffering from significant deferred maintenance, and since it is historically-designated, the subject improvements cannot be demolished (i.e. the market value of the land as-vacant cannot be considered as a possibility). Furthermore, the City of Minneapolis is disposing of this property via the Request for Proposals (RFP) process. This process requires the winning bidder to have a specific development plan and a respective associated timeframe (generally less than six to nine months). In other words, a speculative buyer is not a possibility. As such, the winning bidder must incur significant renovation cost in the next year and also have a specific user/users in-place.

Even though the application of the Income Approach resulted in a negative value indication, it is believed that there would be buyers for the subject property at a zero acquisition basis, given the assumptions in this appraisal relative to the concessions the seller would have to make in order to achieve their historic preservation goal for the property.

## ***RECONCILIATION***

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